The COMMERCIAL and FINANCIAL
# CHRONICLE

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## Editorial AS WE SEE IT

The President has delivered all his major annual messages to Congress. As is always the case in an election year they are all deeply tinged with politics. In fact, they may be regarded as laying out the main lines of the Republican strategy for the coming election campaign. If there are passages here and there which are reminiscent of Pippa Passes (God's in his heaven—All's well with the world) they may perhaps be excused in the circumstances. But the fact that these are in substantial part political documents, far from rendering them less important, makes imperative the need for special study and appraisal by the rank and file. They may, and very well could, have much to do with the policies of the Federal Government during the four years to follow this, the year of our Lord, 1960—and that more or less regardless of the outcome of the voting this autumn.

At one point the President asserts that "there are good grounds for confidence" that the economic advances he has cited for 1959 can be "extended through 1960." He believes, moreover, that it is well within the ability of the American people to carry the improvement well beyond the current year. He warns, however, that "we must avoid speculative excesses and actions which would compress gains into so short a period that the rate of growth could not be sustained. We must seek, through both private actions and public policies, to minimize and contain inflationary pressures that could undermine the basis for a high, continuing rate of growth." We are in no way disposed to differ with the President about the tremendous potentialities of our peoples and their system of free enterprise. On the contrary, we are quite convinced that our potentials are as unlimited as they have always been.

At the same time it is in order, indeed it is imperative, to inquire whether the policies that the President and his party have been following and that he now proposes for the future are of the sort to promote and make more certain a full realization of the potentials that we all agree are ours. It seems to us (Continued on page 42)

# Canada's Leading Authorities Evaluate Its Economic Prospects

*In articles especially written for THE CHRONICLE, individuals eminently qualified to accurately interpret the course of Canada's economy in the instant year present their views. The commentaries discuss the probable trend of key factors, including course of the money market, capital and consumer expenditures, housing, new developments in the oil, gas and mining industries, and other aspects of the nation's business life. The statements appear herewith:*

### HON. GORDON CHURCHILL
**Minister of Trade and Commerce**

Canada's Gross National Product in 1959 increased by 7% from the level of the preceding year. Prices rose on the average by 2%. This means that total national output, in physical volume terms, was up by about 5%. Agricultural production in 1959 was affected by below-average harvests of grains and some other crops, but most other industries experienced substantial gains. Industrial production increased by 8%.

Hon. G. Churchill

Expanding production has, in turn, meant more jobs. Total employment was nearly 3% higher on the average in 1959 than in the preceding year. The long-term decline in farm employment continued, but non-farm jobholders increased by 3½%. New job opportunities have kept ahead of the expanding labor force and unemployment declined. Considered as a proportion of the labor force, the number of jobless persons in Canada fell from 6.6% in 1958 to 5.6% in 1959. By last November, unemployment was 18% below the level which prevailed at the same time in 1958.

After moving sharply ahead in the early part of 1959, the tempo of economic activity in Canada slackened somewhat in the summer months. Subsequently, the pace of advance has again quickened, and key economic indicators are presently pointing toward further expansion.

The international economic climate at this time appears particularly favorable. There is general expectation that the American economy will move ahead with renewed vigor, now that the threat of another steel strike has been eliminated. In other industrial countries, business activity continues to advance after a year of steady expansion. The balance of payments positions of these countries have strengthened and their reserves have increased substantially. The world's main trading currencies are now convertible and discrimination against dollar area exports is being progressively eliminated. Import restrictions are being relaxed and removed. Moreover, with the vulnerability to balance of payments difficulties greatly reduced, the growth of internal consumption and investment levels in many foreign countries is no longer subject to the same limitations as previously. Meanwhile, underdeveloped countries have benefited from a moderate improvement in world commodity markets. These developments have already resulted in a considerable increase in the level of international trade.

In the early stages of this world expansion, the major material-consuming countries, such as the United States, relied to a large extent upon available domestic capacity to provide for their mounting requirements of industrial materials. However, further growth of production in industrial countries is likely to be accompanied by increasing reliance upon Canadian as well as other outside sources of supply. The level of Canadian exports is already rising and continuation of this trend would exert a dual stimulus within the economy. On the one hand, it would bring into use recently-created capacity in Canada's export industries. Secondly, it (Continued on page 20)

## CANADIAN ANNUAL REVIEW AND OUTLOOK ISSUE

# The Security I Like Best . . .

**A continuous forum in which, each week, a different group of experts in the investment and advisory field from all sections of the country participate and give their reasons for favoring a particular security.**

JACKSON D. DEWAR
*Security Analyst*
*Dewar & Company, San Diego, Calif.*

**Ennis Business Forms, Inc.**

For long-term capital growth and a moderate yield of around 3%, the common stock of ENNIS BUSINESS FORMS, INC. has considerable appeal at this time.

Jackson D. Dewar

This Texas based company boasts an unblemished record of earning a profit and paying a dividend in each of the past 50 years since its incorporation in 1909. It manufactures and sells a diversified line of business forms and other business paper products, including salesbooks, restaurant checks, register forms, snap-a-part forms, tabulating and other continuous forms, tabulating machine cards, tags, carbon paper, and a variety of other stationery supplies for retail, wholesale and manufacturing businesses.

Plants are located in Ennis, Texas; Chatham, Virginia and Paso Robles, California. Its products are used by a wide variety of business establishments and are sold to over 14,000 dealers who in turn sell to the final consumer. Generally, the custom products bear the name of the purchasing dealer.

Capitalization is simple consisting of $120,000 — 5% serial debentures and 550,000 common shares. Current assets amount to $3,649,800 against current liabilities of $812,095.

Nineteen hundred and fifty-five fiscal year sales were $5,856,307 and for the 1959 year ended Feb. 28 had increased to $9,126,019. Earnings per share for the same periods were $.41 and $.79, respectively. Net operating earnings for the nine months ended Nov. 30, 1959 amounted to $481,776 or $.88 per share—an increase of about 65% over the $291,760, or $.53 per share for the same period the previous year.

Dividends are presently being paid at the rate of 16¼c per quarter and it seems reasonable to expect that the rate may be increased in the future.

With the expansion in American business expected in the Sixties with its accompanying volume of paper work, the future of ENNIS BUSINESS FORMS seems bright indeed. First publicly offered at $16.25 in October, 1959, the shares are now selling in the Over-the-Counter-Market at about 20.

CLAUDE ROSENBERG, JR.
*J. Barth & Co., San Francisco, Calif.*
*Members, New York Stock Exchange*

**American Express Company**

Of the many yardsticks used to distinguish a growth company, there is one factor which stands out as a "must" above all others: the company should possess a rate of growth which compounds itself into **rapidly rising earnings per share** over a period of years. American Express Company has already qualified itself as having such compounding growth and it is the conviction that the years ahead will show an acceleration of this trend which qualifies the stock as "The Security I Like Best."

Claude Rosenberg, Jr.

The business of American Express can best be described by the terms "Convenience, Money and Travel"—all of which are in constantly increasing demand. Principally engaged in the sale of travelers cheques, travel service, field warehousing and the handling of foreign trade for others, as well as overseas commercial banking, management has broadened its activities in recent years to include two very promising areas, namely international car and truck rentals (in partnership with Hertz) and credit cards. American Express serves the world through a network of 372 offices and over 70,000 selling outlets in 36 countries. Needless to say, the company is a prime beneficiary of certain definite trends in our economy. Travel, which was formerly reserved only for the rich, is increasing in popularity among the burgeoning middle income groups. Year after year the public finds more leisure time available and a "smaller world" (due to jet travel)—meaning more and more potential customers for American Express services. Growth in foreign trade is another strong plus factor for the company.

One not-so-publicized feature of American Express is its huge investment portfolio, now totaling about a half-million dollars. Since there are only 4,461,058 Amerex shares outstanding, it is easy to see the leverage that exists and the impact on net income per share from only a slight increase in the portfolio's yield. For example, a ½ of 1% higher return means roughly $2½ million, or about 56 cents per share before taxes (and taxes are a minor factor because of large municipal bond holdings and preferred and common stock ownership, of which only 15% of income is taxable). The portfolio is benefiting from two factors which should allow a higher return over the years. First is the rising yield curve on fixed income securities and, since the average portfolio maturity for American Express is just short of six years, this is not a "here today, gone tomorrow" phenomenon. Second is management's more aggressive attitude toward investments: i.e., its willingness to invest in potentially high return ventures. The company's previously mentioned arrangement with Hertz overseas is a typical example. Not only did this investment put American Express into a solid growth business, but the agreement gave it ownership of almost 40,000 shares of Hertz common stock and an option to purchase 118,125 additional shares at a price of $27.21 per share, some $13.00 under the present market.

You will notice that I have mentioned the much-publicized American Express credit card only briefly. That's because I want to avoid the impression that the stock is recommended only as a "future Diner's Club." Instead, I view the credit card as a "kicker," but one which has an excellent chance of paying off handsomely. Since its introduction just 15 months ago, American Express has already attracted more than 750,000 card holders. Although this operation is not yet contributing to earnings, 1960 should see it break into the black and it is reasonable to assume an increment to earnings of about $1 per share within 2-4 years.

For the year just completed, American Express should report net income in excess of $1.90 per share, up from $1.70 per share in 1958. Earnings per share of American Express have increased in **every year** since 1949 and have advanced 242% over this 10 year span. This amounts to a 13.2% annual gain in earnings and compares with rates of 15.9% for IBM, 10.3% for du Pont and 15.2% for Minnesota Mining over this period. We expect 1960 to be another record year for AE and that a $2.25-$2.50 per share performance is in sight. Over a longer period, it is possible to visualize $4.00-$5.00 per share earnings as early as 1964. As a conservative issue (the Company boasts a clean capitalization, a strong financial position and a consecutive dividend record going back to 1870), American Express, currently selling around 45 in the Over-the-Counter Market, is more reasonably priced than comparable growth stocks and offers the appealing combination of consistently strong growth and stable income. American Express is a "sleep well, eat well" stock and "The Security I Like Best" at this time.

*(This is under no circumstances to be construed as an offer to sell, or as a solicitation of an offer to buy, any security referred to herein.)*

**This Week's Forum Participants and Their Selections**

**Ennis Business Forms, Inc.** — Jackson D. Dewar, Security Analysis, Dewar & Co., San Diego, Calif. (Page 2)

**American Express Co.** — Claude Rosenberg, Jr., of J. Barth & Company, San Francisco, Calif. (Page 2)

# Chicago Bond Club To Hold Meeting

CHICAGO, Ill.—The Forty-Ninth Annual Meeting of the Bond Club of Chicago will be held at the University Club of Chicago on Thursday, Feb. 11, 1960.

Cocktails will be served at 6:00 p.m., College Hall, with dinner at 7:15 p.m., in Cathedral Hall.

The Nominating Committee, William D. Kerr, Bacon, Whipple & Co., Chairman, Andrew M. Baird, A. G. Becker & Co., Inc., and Richard W. Simmons, Blunt, Ellis & Simmons, have proposed the following officers and directors for the coming year:

President: James M. Howe, Farwell, Chapman & Co.

Secretary: John J. Markham, Hornblower & Weeks.

Treasurer: James H. Clarke, American National Bank & Trust Co.

For Directors, the officers are: Charles F. Glore, Jr., Glore, Forgan & Co.; Elmer G. Hassman, A. G. Becker & Co. Inc.; Robert I. Kelley, Harriman Ripley & Co., Inc.; Lee H. Ostrander, William Blair & Co.; James E. Snyder, A. C. Allyn & Co., Inc.; and Robert P. Walker, Eastman Dillon, Union Securities & Co.

Reservations should be made with George R. Torrey, McCormick & Co.

# A Year of Advance With Some Gathering Clouds

*By* Malcolm P. McNair,* *Lincoln Filene Professor of Retailing Harvard Graduate School of Business Administration*

**Examination of significant areas of spending flows adduces prediction that GNP in 1960 should reach \$508-\$510 billion with possibly the highest point in the third quarter. Thereafter clouds on the horizon are expected to be casting longer shadows. Corporate management is advised to make a sober assessment of whether interrelated problems of inflation-deflation, balance of payments and labor-management strife might induce a really severe business setback somewhere in the early 1960's. Turning specifically to department store outlook for next six months, foresees spring season's sales advancing 5%, a slightly higher gross margin percentage, and small earnings' improvement for the industry as a whole.**

I

This is one of those years when the very unanimity of the business forecasters is a bit terrifying, and one begins to wonder whether perhaps the present crew of business soothsayers spend too much time in one another's company, draw too much of their material from the same sources, and hence slip into an easy rut of projecting the continuance of obvious current trends, just possibly failing to develop enough perspective for the longer run. One of the most refreshing performances in the way of business forecasting which I have encountered recently is that of Paul A. Samuelson of the Massachusetts Institute of Technology, published in the *Monthly Business Letter* of the Merchants National Bank of Boston, in which after going through all the conventional steps of an annual business forecast he winds up with the following statement: "Well now my work is done and I have proved the truth of the old adage—What one jackass can do, so can another." He then observes, "The fact that most of the forecasters tend to agree should not make us have undue confidence in their accuracy. It may merely mean that they are all going to be wrong together! . . . [But] the fact is that—fallible as such forecasts inevitably are — any decision-maker would be a fool not to pay the greatest amount of attention to them. For really there is no alternative. To ignore the best professional forecasts is equivalent to using one's own amateur judgment in making an **implicit** forecast. And Sewell Avery has shown us all how disastrous that process can be."

Prof. M. P. McNair

Perhaps the most obvious economic fact in the United States today is that we live in a consumer-oriented economy. Indeed, our economy is one today that can aptly be described as "consumeristic" rather than capitalistic. This generalization clearly emerges from the business experience of the 1950 decade, particularly the late years of that decade. For instance, consumer income actually increased during the 1958 year of business recession, and just in recent months we have had occasion to observe that sustained consumer spending has carried the economy through the unexpectedly prolonged steel strike with fewer economic repercussions than might have been expected. Today it is increasingly true that what consumers wish to buy, or perhaps we should say, what they can be persuaded to buy, determines not only consumption but also production, employment, and profits. This is simply another way of saying that marketing, and particularly consumer marketing, is today the mainspring of our economy, at least so long as it operates within measurable limits of price stability.

Number one on the required reading list for any business forecaster is his own forecast of the previous year. In my comments a year ago I was much too conservative. I suggested that department store sales in the spring season of 1959 would show an advance of at least 4%. Actually the figure for the first half was +8%. Where I was principally in error was in failing to foresee the large inventory buildup in the first half of 1959 in anticipation of the steel strike, a buildup which raised output and spending power very substantially, since it represented a reversal from an annual rate of inventory decline in the first quarter of 1958 of some \$9 billion to an annual rate of increase of roughly the same amount. Also I underestimated the willingness of consumers to spend. In fact, there were a number of observers who were somewhat surprised by the strength of consumer spending throughout the year, and particularly the sustained consumer spending in the face of the long steel strike in the second half. And of course practically all business forecasters greatly underestimated the probable duration of any steel strike.

**Pertinent Data**

But enough for hindsight. Turning now to an appraisal of the current situations as of January 1960, a quick rundown of the pertinent business indices is first in order. Practically all these figures have been affected, particularly in the third and fourth quarters, by the

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***Articles and News***



**ARTICLES PERTAINING TO CANADA'S ECONOMY DURING 1960**



**CANADA'S LEADING AUTHORITIES EVALUATE ITS ECONOMIC PROSPECTS**

Starting on the cover page, we present the views of leading Canadian Government Officials, Bankers and Industrialists as to the probable course of Canada's economy during 1960. These articles, of course, were expressly written for the "Chronicle" and provide the reader with official, up-to-the-minute information regarding economic trends in Canada.



***Regular Features***



*Column not available this week.

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Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

# Prospects for New Growth in Canada's Economy in 1960

By Honorable Donald M. Fleming,* *Canadian Minister of Finance*

**Canada's fiscal helmsman's review of the economy and prospects for higher growth in 1960, and of current problems, admonishingly prescribes a still higher internal generation of capital, which is already exceptionally high. The Minister calls attention to the heavy inflow of capital and the consequent growing concern over the fluctuating exchange rate in warning that his recommendation is the better way for Canada to continue absorbing capital on the same scale than to slow down the rate of development by reducing capital inflow. In addition, he declares Canada will continue to maintain a hospitable climate for foreign capital; outlines measures to meet inflation and improve the money-capital markets; and opposes devaluation of gold amongst other measures he disapproves of that have been suggested to cure Canada's exchange rate problem.**

### Retrospect—Review of 1959

It is inevitable that at the commencement of a new year our thoughts are divided between retrospect and prospect. Today we stand at the threshold not only of a new year but of a new decade. We are prompted on that account to see both 1959 and 1960 in a larger setting. History is continuous. Neither the years nor the decades are detached from each other. This is not the occasion to attempt a review of the decade that has just closed. Indeed, there is no time for that purpose. All of us will, however, look back on the '50s as a momentous decade in our lives and in the life of our country.


Donald Fleming

We have good reason to remember 1959 as an important year in Canada's history. A year ago we were concerned with the aftermath of recession, with the strength and pace of recovery with something of an economic paradox, namely, the coexistence of an abnormal degree of unemployment and an inflationary potential which was giving rise to an exaggerated anxiety psychosis.

In retrospect, it is now apparent that many of the uncertainties and apprehensions of a year ago were unwarranted. Last year was one of vigorous and healthy growth for the Canadian economy. In 1958, recession gave way to recovery. In 1959, recovery yielded to the powerful forward thrust of expansion. The past year was not without its financial strains. High interest rates and credit stringency accompanied and reflected the extra-ordinary acceleration in business activity. Difficult decisions in the fields of fiscal and monetary policy had to be made in the cause of steady, rather than explosive and inflationary, progress. But 1959, I believe, stands on record as a year in which the dominant theme was one of expanding output and employment, with real gains in productivity and more price stability. In this pattern lies the foundation for achieving sound and sustainable economic growth in the future. In contrast to a year ago, our concern today is not with whether we will continue to grow, but with what kind of growth we wish and will have.

The gratifying progress which took place in the Canadian economy in 1959 cannot be divorced from the perspective of certain significant developments outside our borders. The environment of the free world economy, particularly in the industrialized countries, was one of general improvement and expansion. The United Kingdom and Western Europe achieved significant progress to which hard work, self-discipline and financial statesmanship made an impressive contribution. Recovery abroad was characterized by control of inflation, currency stability and a striking improvement in reserve positions which made possible a greater degree of currency convertibility and the removal of most financial discriminations against imports from dollar countries.

The strengthened international financial structure, developments in European trading arrangements, and the improved outlook in the free world economy hold significant implications for Canada, as a trading nation and as a nation chronically short of capital. The world economy today is not only steadily expanding; it is increasingly competitive.

### Experience in U. S.

Events in the United States have, of course, an important bearing on our Canadian experience. On the whole, the United States economy has displayed great vigor in 1959. Production, income, spending, capital investment and other indices have all exceeded previous peaks. Expansion has been accompanied by certain financial problems in the United States, just as it has in Canada and is beginning to in Europe. But there is no evidence in the United States, just as there is none in Canada, that these developments are interfering with the process of economic growth. The deterioration in the United States balance of payments position, from a short-term viewpoint, has not been altogether unhealthy or unconstructive. Indeed, the flow of gold and dollars to other countries encouraged and underpinned the welcome moves to currency convertibility and the reduction of discrimination. Nevertheless, any long-continued drain on American gold reserves of the degree witnessed in 1959 would raise some serious implications.

The rate of progress was interrupted in the second half of the year by the steel strike which had adverse effects on production and employment. However, it is reassuring to find the consensus among qualified observers in the United States is that economic expansion there has already resumed and that 1960 will be a year of substantial further growth.

The recovery in Canada, which began in mid-1958, moved forward strongly throughout 1959. Gross National Product, seasonally adjusted, reached an annual level of $34,724 million in the third quarter of 1959, a new and impressive record for the most comprehensive indicator of business activity. Economic growth has been measured largely in the real terms of productivity and a sound dollar. If the economy paused briefly in the third quarter partly in response to the uncertainties engendered by the steel strike, it appears to have resumed its upward momentum in the months since. In my Budget Speech on April 9 last I forecast that the G. N. P. would increase in 1959 as a whole by 7% over the previous year. I see no reason to doubt that this result will have been achieved. In shaping the quality of this growth, I think it fair to say that fiscal adjustments to the circumstances of an expanding economy and the restraint of Federal demands upon the capital market for new money played a vital part. Certainly in the choices we made in the Budget we did not impede or hamper the forces of expansion. As we face 1960 those forces continue strong.

In brief, therefore, 1959 was a good year for Canada. It was a year of growing confidence, rising employment and recovery moving into a broad expansion—moving, indeed, to such an extent that it brought financial strains with it. Internationally, it will be remembered as a year of relaxation of tension when talks replaced threats. It will also be remembered as a year of tremendous economic recovery in Western Europe and Japan and consequent sharpening of competition.

### Prospects for 1960

I have been speaking of the '50s as a momentous decade. The 1960 scene opens in Canada on an economy which is much more mature and more developed than that of 1950. We cannot, however, spend long in contemplation of the past. We cannot relive it, we cannot undo it. We contemplate it in order to derive instruction from its successes and failures, to

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# "Living Within Our Means"

By Hon. J. E. Coyne,* *Governor of the Bank of Canada*
*Ottawa, Ontario, Canada*

**Proposal to limit foreign borrowings is made by Canada's central banker who says his country is living precariously beyond its means. Concerned about Canada's growth rate and alarmed at its consequences including shift to a chronic balance of payments deficit, Governor Coyne would also limit capital and consumer spending abroad and depend upon domestic capital supply which he deems highly adequate to meet government and business affordable and sustainable expenditures. The Governor avers a less extravagant investment policy would not interfere with sound economic growth nor compare unfairly with other countries; depicts role monetary and non-monetary measures must take to avoid inflation and cyclical instability; and finds excessive spending in past five years, and too rapid money supply rise has not levered a commensurably greater increase in production.**

There are three recognized major economic goals of modern states —economic growth, a high level of employment, and a stable value for the currency. A sound currency and price stability are not only of major importance in themselves but are essential to the maintenance over a long period of fruitful economic growth and a consistently high level of employment. The objective of central banking is therefore to safeguard the value of the national currency and to contribute to the maintenance of overall economic growth on a sound and sustainable basis, in order that the end results of the business activities of all members of society may be a rising standard of living, an increasing measure of enjoyable leisure, and as wide as possible a choice of useful and constructive employment opportunities.


J. E. Coyne

It is important to emphasize that the goal of economic policy is not just any kind of growth and definitely not a hot-house type of growth, but sound and sustainable economic growth, a continuous and sustained improvement in production. As the Minister of Finance said last week, with particular reference to Canadian economic development during the decade of the 50's, "Too often we have been tempted to pursue too rapid a rate of growth with too little regard for the inevitable consequences and inequities. . . . We cannot assume the assurance of a higher national income year after year unless we take steps to ensure that the expansion is orderly and balanced."

### Attacks Excessive Growth

The pursuit of an unrealistic rate of growth regardless of cost will also most certainly lead to inflation of prices, of costs of production, hardship and misery for all those whose incomes cannot be adjusted to the higher cost of living, and serious displacements in those industries which find themselves in consequence of these factors unable to continue to export under competitive world market conditions, or unable to continue to produce for the domestic market at prices competitive with the products of other countries which have pursued a more balanced and prudent course.

An unhealthy, unsustainable expansion based to an excessive degree on borrowed money, whether domestic or foreign, will —as recent experience has shown —make the ensuing recession all the more severe, and attempts to mitigate it more difficult.

To distort all economic relationships in order to pursue the single objective of an extraordinary and unsustainable rate of growth for a short time may be necessary in war-time. In peace-time it is an aberration which has led and must lead to inefficiency, misdirection of effort, and waste of resources in projects which prove to contribute little or nothing to efficient productive growth. Moreover, attempts at excessive or misdirected growth are always followed by a period of contraction or much reduced growth, with consequent unemployment among those whose livelihood has become dependent upon construction and the production of capital goods, as well as for many others who have been drawn into employment in activities which could not continue on the scale previously achieved.

In our country, pursuit of an

*Continued on page 31*

# OBSERVATIONS...

*BY A. WILFRED MAY*

## FLEXIBLE AID

News of coming U. S. participation, without the "buy American" proviso, in a prospective $1 billion loan to India and Pakistan in a "package deal" under the aegis of the World Bank, apparently evidences the intention to confine insistence on "Tying" to those credits bilaterally extended by the Development Loan Fund and the Export-Import Bank. Such continuing policy covering both provisions would constitute a constructive and workable compromise.

Reports of intensive complaining by the British over our recent decision "tying" the proceeds of our Development Loan Fund extensions gets an authoritative denial from the visiting President of their Board of Trade, the Rt. Hon. Reginald Maudling.

In discussing the implications of our foreign trade policies in an interview given to the writer, this key official reported his country's reaction "Buy American" rule as one of "understanding, but with regret."

The expression of regret, Mr. Maudling explained, is largely occasioned by the lessening of the effectiveness of our aid, particularly if the prices which the aid recipients must pay is to be constantly raised by inflation here. This, to us, would add up to another reason for considering anomalous the granting of aid abroad by a country inflating at home.

* * *

## A "TIP" COMES THROUGH

In our column written at the turn-of-the-year forecasting season, we stated that there was only one stock market prediction that we could confidently make. The market's course, whether upward or downward, would, as always, be "explained"—after the event—by selecting those of the contradictory interpretations that would fit. Now, with the market's ensuing decline, such rationalization of the market's behavior has already occurred.

This is highlighted in the comment on the steel strike settlement, in which relevant implications have been selected and interpreted to justify the market's decline. Had there been a market rise, such factors as the major long-term inflationary impact and the forestalling of pro-labor anti-management legislation would have been offered in "explanation."

On the other hand, in the present bearish market atmosphere, the prevalent commentary has been stressing such potentialities of the labor contract as profit-squeezing, stimulation to pricing us out of the foreign markets, an inflation dose smaller than occurred under previous contract renewals (with citation of President Eisenhower's pronouncement that the settlement would not be inflationary, and might never be), or at least making for some progress in slowing down the former average annual increases in labor costs.

### Double Interpretation of a Budget Surplus

Similar "flexibility" of news interpretation is also demonstrated regarding the budgetary surplus envisioned by the President for fiscal 1960-61. This could have been regarded as a *bullish* market factor. For a budget surplus devoted to debt reduction, easing of the "tight money" situation, and a lowering of the interest rates would reduce the yield of securities, tending to raise their price. Moreover a loosening of money and credit would lessen a major obstacle to the carrying of inventories; and remove a deterrent to capital expenditures (with the iron and steel companies needing $1.6 billion for new equipment and construction in 1960).

On the other hand, in a bearish market atmosphere, removal of deficit financing is regarded as deflationary, and hence a depressant on stock prices.

### Chasing the Market With the News

We are thus witnessing again the investment community's choice of the appropriate *post facto* interpretation of a particular event. Additionally, we are again seeing the selection of those events themselves which will serve to explain the market's action.

During the current "sloppy" market condition, emphasis is placed on recession potentials from over-production in some lines, over-extension of consumer credit, reduced profit margins, loss of foreign markets, election-year items as anti-monopoly prosecutions; *et cetera*. But, had a January market *rise* occurred, it would have been "explained" by citing such concurrent cheerful news items as the President's reporting of the nation's new high in the output of goods and services, the rise in personal income payments, and the high level of employment.

In any event, whatever the details of such rationalizing of the market fluctuations, the routine marks a far cry from long-term investment valuation.

* * *

### SHAREHOLDER SURVEY IN GAMBLE-GAMBLE LAND

*[This is by way of "P.S." to our article on Investment-Speculation confusion, in the January 7 issue.]*

Akin to President Funston's periodic Transactions Studies analyzing the motives of the public using the New York Stock Exchange, the *Economist* of London reports on the results garnered by a single pollster, namely its correspondent in Las Vegas, our nation's mecca of gambling-and-divorcing. In this report "Gamblers Play Safe," in a recent issue of the British periodical, the correspondent registers his surprise over the divergent attitudes displayed in the Nevada individuals' use of their money.

On the one hand, he finds roulette-table players join the small-fry bell-hops, waitresses, and maids in uninformed, hopeless dabbling in the most speculative stocks. On the other hand, the gaming casino *operators*, along with the eminently substantial businessmen and hotel owners, reportedly concentrate on "sound investing" in mutual funds and the blue chip market favorites.

The correspondent specifically expresses his surprise over the casino *owners'* "conservatism."

I would remind the Nevada pollster that conservative handling of his own money by the man-in-charge of "the game" represents no new anomaly. For example, a classic tale since its publication in 1938, has served as the title of a best-selling volume, "Where Are The Customers' Yachts" by Fred Schwed. . . . An out-of-town visitor was being shown the sights in New York's fabulous financial district. "There," said his guide, pointing expansively to some handsome ships riding at anchor, "are the properties of the great Wall Street brokers: Livermore, Baruch, Meehan, Content, Casparri, *et al.*" "Yes," responded the naive visitor, "but where are the *customers'* yachts?" Dead silence!

# R. S. Dickson Men In Chicago

CHICAGO, Ill.—R. S. Dickson & Co., Inc., members of the Midwest Stock Exchange, have announced that Carl G. Coffey, Assistant Vice-President, formerly of the New York office, is now Resident Manager of the Chicago office, 135 South La Salle Street. Frank W. McSpadden, also Assistant Vice-President of the firm, formerly located in Charlotte, is now Assistant Resident Manager in Chicago.

# The State of TRADE and INDUSTRY

*Steel Production*
*Electric Output*
*Carloadings*
*Retail Trade*
*Food Price Index*
*Auto Production*
*Business Failures*
*Commodity Price Index*

*What's in store for Canada's economy in the year now in progress? Possibly the best, certainly the most authoritative answer to this question, may be obtained from a reading of the opinions expressed in this issue by some of the most knowledgable people on the subject. Besides the articles appearing on page 4, reference here is made to those starting on the cover page of today's CANADIAN ANNUAL REVIEW AND OUTLOOK ISSUE. Written primarily for the "CHRONICLE", they provide the reader with a straightforward analysis of the probable trends of the economy of our good Northern neighbor. All of the material referred to, are must reading, of course, for the institutional and other investors in Canada.*

### National Summary of Business Conditions in the United States

Industrial production and non-farm employment recovered in December nearly to the record highs reached before the steel strike and construction activity also increased. While auto deliveries were curtailed, retail sales of other goods were at record levels. Bank loans expanded sharply, but the money supply showed little change. From mid-December to mid-January, yields on fixed income securities increased. The average level of wholesale commodity prices remained stable, according to the Federal Reserve Board, from whose analysis the following other data are given.

### Industrial Production

The Board's revised index of industrial production rose 6% in December to 165% of the 1947-49 average, compared with 156 in November and 166 last May and June, before the steel strike. The December level was 9% above both a year ago and the 1957 average. These revised index levels reflect partly the inclusion of electric and gas utility output, as described in the December Federal Reserve Bulletin.

**Industrial output of materials rose sharply in December as steel mill operations recovered rapidly to 95% of capacity from 60% in November. Coal and iron ore mining also increased and production of construction materials turned up following a decline of about 10% from the midsummer peak. Output of some nonferrous metals continued to be limited by work stoppages.**

**Reflecting the improved supply of steel, industrial output of consumer goods rose 3% in December to a new high—13% above the 1957 average. Auto assemblies increased sharply and by mid-January rose considerably further to about 40% above the 1957 average. Output of furniture, television, and some household appliances also rose in December, and production of apparel, foods, and other nondurable goods was maintained at advanced levels. Production of farm machinery, railroad cars, and motor trucks increased from reduced levels and activity in some other equipment industries expanded further.**

### Construction

**Private nonfarm housing starts rose in December to a seasonally adjusted annual rate of 1.3 million units. Total new construction put in place, after declining for six months, edged up to an annual rate of almost $52.6 billion. Every major type of construction activity registered some increase.**

### Employment

**Seasonally adjusted employment in non-farm establishments rose 286,000 in December to 52.5 million, close to the peak level reached before the steel strike. Unemployment, at 3.6 million, was about unchanged in contrast to the usual increase in December, and the seasonally adjusted rate declined to 5.2% of the civilian labor force compared with 5% in mid-1959, before the steel strike. Average weekly earnings in manufacturing rose to a new high of**

*Continued on page 50*

# TAX-EXEMPT BOND MARKET

*BY DONALD D. MACKEY*

Since late in December the state and municipal bond market has shown an underlying firmness more consistently than any other phase of the general bond market. While the government bond market has been irregular through immense problems of rollover, funding and refunding and the corporate bond market has been, at least, inconsistent and hesitant, tax-exempt obligations have been in demand to the extent that the market has improved on an average of over one point and the street float has been substantially reduced.

Although the *Commercial and Financial Chronicle's* state and municipal bond index indicates an average rise for the past week of about three-eighths of a point, if measured by recent new issue bidding the rise would be more. The index utilizes outstanding issues of general availability and naturally lags, as against new issue offerings, in a firm or rising market. This week's Index is 3.615% in terms of average yield. Last week (1/20/60) the average yield was 3.642%.

### Bidding Too Aggressive?

Since several new issues have recently been priced at yields ten or fifteen basis points higher than comparable secondary market offerings it seems appropriate to comment briefly on the subject of new issue bidding. In making bids for most new issues, and particularly the general market names of good quality, dealers often seem naively overcompetitive in their bidding attitudes. Often this super competition among bidding groups is thoughtlessly blamed on the large dealer banks by inferring to them a duality of interest that for the most part is not justifiable or even existent. Dealers generally are approaching most new issues as projects to buy, rather than projects to buy and to sell with reasonable prospect. The profit reducing techniques as exercised by the more dexterous underwriters place them in positions more glorified than the representatives and salesmen who usually know what they can or cannot do with prospective issues. The sales pressure that they endure, in attempting to sell what may have been purchased against their advices, is frequently terrific.

### Profitless Business

This change in emphasis has gradually developed since the days of negotiated bidding for both corporate and municipal loans. Whereas, energies formerly went into selling an issue after the careful negotiation of it, energies today are primarily expended in competing for the purchase, at levels often above or at least ahead of the market. Dealers might amend this situation by resisting the tendency to just buy by overbidding. The buyer is generally favored by this procedure as price cutting is the familiar expedient.

There were very few bond dealers who experienced a really profitable year in 1959 despite the record financing total. Justifiable profits were literally thrown away through overcompetition, overbidding, and underselling. This ridiculous situation could be partly straightened out, with benefits to the industry and better relationships with the investors, by some insistence upon franker expression at price conclaves by managers and members, and by the use of much shorter syndicate periods.

### The New Jersey Decision

An interesting report came from New Jersey this week as a Supreme Court ruling. The Supreme Court ruled that the statute requiring the assessment of all real property at 100% of true value applies also to personal property. This ruling emphasizes the intent of the court and should bring closer the day when all taxing units must comply with the court's 1957 mandate, unless in the meantime amending legislation is passed by the legislature. This subject is of far reaching interest because of its implications for potential local spending, even with lowering tax rates.

### Recent Financing

We reported last Thursday (Jan. 21) that the State of Washington awarded the previous day $28,089,000 bonds to a Kuhn, Loeb & Company and Eastman Dillon, Union Securities Company group as two issues. At present a total of about $20,000,000 remains in account. Also on the 20th, Louisiana awarded a $15,000,000 issue to the C. J. Devine & Company-Bankers Trust Company and Morgan-Guaranty Bank group. About $6,500,000 remains in account.

On Monday of the present week the Minneapolis - St. Paul, Minnesota Metropolitan Airports Commission awarded $7,000,000 General obligation bonds to the group headed by Halsey, Stuart & Company-Morgan Guaranty Trust Company-Lehman Brothers-Drexel & Company-Blair & Company and others. The bonds were scaled to yield 3.45% for 1979-1980 maturities. The balance in account is about $5,000,000 at this writing.

On Tuesday the Boston Metropolitan District, Massachusetts, awarded $2,974,000 to a group including C. J. Devine & Company-First of Michigan Corporation - Hallgarten & Company and Ira Haupt & Company. Bonds were scaled to yield 3.80% for 1989-1990 maturities and the balance yesterday morning was reported as $2,300,000.

Also on Tuesday, the market experienced some successful Texas financing. Waco, Texas awarded $6,000,000 general obligations to the Harris Trust & Savings Bank-First National City Bank of New York-First National Bank of Chicago group. Scaled to yield 4.00% for 1984-1985 maturities, the issue was sold down to $2,000,000 on initial offering. Waco also awarded $2,400,000 water and sewer revenues bonds to the F. S. Smithers & Company-Rauscher, Pierce & Company group. Scaled to yield 4.00%, the issue was a sell out.

Two important new issues have reached the market yesterday. The $9,800,000 City of Houston, Texas various purpose issue was awarded to an underwriting group managed jointly by Kidder, Peabody & Company-Chase Manhattan Bank-Bankers Trust Company. This limited tax issue was scaled to yield 3.85% for the 1981-1985 maturities. A good reception is anticipated.

Alexandria, Virginia also awarded $4,137,000 public improvement bonds on Wednesday. This issue of 20 year serial bonds was scaled out to yield 3.80% for the 1980 maturity. The winning group was headed by the First National City Bank and included C. J. Devine-Merrill, Lynch, Fenner, Pierce & Smith.

### Light Calendar

The New Issue Calendar remains relatively light. The only important addition is $100MM State of California, serial bonds scheduled for sale on March 9. It is understood that California, which sold $100 million bonds on Jan. 13, will sell a total of about $450,000,000 this year. A large part of this debt is self-liquidating.

The Elizabeth River Tunnel Commission, Virginia may borrow about $45,000,000 in February. This issue of revenue bonds, it is reported, would refinance an outstanding bond issue and would cover new Tunnel Construction between Norfolk and Portsmouth. There is continued talk of the possible financing of a Florida Turnpike extension approximating $52,000,000 sometime this year. This money would be used to extend the present turnpike from Fort Pierce to Orlando.

The "Blue List" total of State and Municipal bonds was $239,025,370 last week (1/20/60). The "Blue List" total on Jan. 27 is only $243,549,350 despite the moderately heavy new issue financing that has intervened.

**MARKET ON REPRESENTATIVE SERIAL ISSUES**

| | Rate | Maturity | Bid | Asked |
|---|---|---|---|---|
| California (State) | 3½% | 1978-1980 | 4.00% | 3.85% |
| Connecticut (State) | 3¾% | 1980-1982 | 3.65% | 3.50% |
| New Jersey Highway Auth., Gtd. | 3% | 1978-1980 | 3.75% | 3.60% |
| New York (State) | 3% | 1978-1979 | 3.85% | 3.70% |
| Pennsylvania (State) | 3⅜% | 1974-1975 | 3.30% | 3.15% |
| Vermont (State) | 3⅛% | 1978-1979 | 3.30% | 3.20% |
| New Housing Auth. (N. Y., N. Y.) | 3½% | 1977-1980 | 3.50% | 3.30% |
| Los Angeles, Calif. | 3¾% | 1978-1980 | 4.05% | 3.85% |
| Baltimore, Md. | 3¼% | 1980 | 3.80% | 3.60% |
| Cincinnati, Ohio | 3½% | 1980 | 3.65% | 3.50% |
| New Orleans, La. | 3¼% | 1979 | 4.05% | 3.85% |
| Chicago, Ill. | 3¼% | 1977 | 4.00% | 3.80% |
| New York City, N. Y. | 3% | 1980 | 4.20% | 4.10% |

January 27, 1960 — Index = 3.615%

## Larger Issues Scheduled For Sale

In the following tabulations we list the bond issues of $1,000,000 or more for which specific sale dates have been set.

*Information, where available, includes name of borrower, amount of issue, maturity scale, and hour at which bids will be opened.*

| | | | |
|---|---|---|---|
| **January 28 (Thursday)** | | | |
| Nashoba Regional Sch. Dist., Mass. | 1,597,000 | 1961-1980 | 11:00 a.m. |
| Oyster Bay and Babylon Union Free School District No. 22, N. Y. | 4,255,000 | 1960-1988 | 1:00 p.m. |
| Springfield City School Dist., Ohio | 3,900,000 | 1961-1980 | Noon |
| **January 29 (Friday)** | | | |
| Florida Development Commission, Fla. (Sarasota County Issue) | 2,600,000 | 1964-1989 | 11:00 a.m. |
| Florida Development Commission, Fla. (St. Lucie County Issue) | 1,200,000 | 1961-1974 | 11:00 a.m. |
| **February 1 (Monday)** | | | |
| Fremont County Sch. Dist. No. 25, Wyoming | 1,115,000 | 1961-1971 | 8:00 p.m. |
| **February 2 (Tuesday)** | | | |
| Antelope Valley Joint Union High School District, Calif. | 1,000,000 | 1964-1980 | 9:00 a.m. |
| Cerritos Junior College Dist., Cal. | 1,500,000 | 1961-1980 | 9:00 a.m. |
| El Camino Hospital District, Calif. | 2,700,000 | 1962-1978 | 8:00 p.m |
| Fridley Independent School Dist. No. 14, Minn. | 1,090,000 | 1963-1990 | 8:00 p.m. |
| Goshen School Building Corp., Ind. | 1,675,000 | 1963-1991 | 1:00 p.m. |
| Halifax County, N. C. | 1,000,000 | 1961-1977 | 11:00 a.m. |
| Milwaukee County, Wis. | 12,467,000 | 1961-1980 | 10:00 a.m. |
| South San Francisco Unified Sch. District, Calif. | 1,180,000 | 1961-1985 | 10:00 a.m. |
| **February 3 (Wednesday)** | | | |
| Austin Independent Sch. Dist., Tex. | 3,750,000 | 1960-1984 | 10:00 a.m. |
| Deer Park Ind. Sch. Dist., Texas | 1,000,000 | 1961-1980 | 8:00 p.m. |
| Kane, Cook and Dupage Cos. Sch. District No. 46, Ill. | 1,500,000 | 1961-1970 | 7:30 p.m. |
| Lubbock, Texas | 4,450,000 | -------- | -------- |
| Yorba Linda Water District, Calif. | 1,670,000 | 1966-1995 | 7:00 p.m. |
| **February 4 (Thursday)** | | | |
| Greenville School District, Mich. | 1,865,000 | 1961-1986 | 8:00 p.m. |
| Jefferson Parish, Consol. Drainage District No. 1, La. | 1,000,000 | 1961-1980 | 2:00 p.m. |
| Jefferson Parish, Fourth Jefferson Drainage District, La. | 2,000,000 | 1961-1980 | 2:00 p.m. |
| Miami-Trace Local Sch. Dist., Ohio | 1,652,500 | 1961-1981 | 1:00 p.m. |
| New York, N. Y. | 22,000,000 | 1961-1965 | 11:00 a.m. |
| Oberlin, Ohio | 1,100,000 | 1964-1984 | 11:00 a.m. |
| Plainwell Community School Dist., Michigan | 1,010,000 | 1960-1985 | 8:00 p.m. |
| Port Angeles, Wash. | 1,700,000 | 1962-1984 | 2:00 p.m. |
| Rubidoux Community Services District, Calif. | 1,240,000 | 1964-1985 | 7:00 p.m. |
| **February 5 (Friday)** | | | |
| Berkeley County, County Board of Education, W. Va. | 1,600,000 | 1961-1980 | 7:30 p.m. |
| **February 8 (Monday)** | | | |
| Cassia and Twin Falls Counties, Joint Class A Sch. Dist. No. 151, Idaho | 1,000,000 | 1960-1979 | 8:00 p.m. |
| Fairborn City School Dist., Ohio | 1,500,000 | 1961-1984 | Noon |
| Maumee City School District, Ohio | 1,575,000 | 1961-1983 | Noon |
| **February 9 (Tuesday)** | | | |
| High Point, N. C. | 2,000,000 | 1961-1978 | 11:00 a.m. |
| Otsego School District, Mich. | 1,750,000 | 1960-1985 | 8:00 p.m. |
| Public Housing Administration (local Authority bonds) | 102,830,000 | 1960-2000 | Noon |
| San Diego County Water Authority, California | 7,000,000 | 1961-1993 | 7:30 p.m. |
| Stillwater Independent Sch. Dist. No. 834, Minn. | 1,000,000 | 1963-1986 | 1:00 p.m. |
| Washington Suburban Sanitary District, Maryland | 10,000,000 | 1961-1990 | 1:00 p.m. |
| **February 10 (Wednesday)** | | | |
| Indianapolis Sanitary Dist., Ind. | 1,470,000 | 1962-1991 | 10:00 a.m. |
| Islip Union Free School District No. 4, N. Y. | 1,055,000 | 1960-1989 | 2:00 p.m. |
| Osseo Independent School District No. 279, Minn. | 1,555,000 | 1965-1990 | 8:00 p.m. |
| Shreveport, La. | 4,700,000 | 1961-1980 | 10:00 a.m. |
| South Haven School Dist., Mich. | 2,330,000 | 1961-1989 | 8:00 p.m. |

# One Sulphur and One Textile

*By Dr. Ira U. Cobleigh, Enterprise Economist*

**A short commentary on two companies whose shares may prove to be presently undervalued—J. P. Stevens & Co. and Freeport Sulphur Company.**

The bracketing of the two companies, selected for consideration today, is quite unusual. They could hardly be more diverse in their activities but they do have in common two things: (1) each is the second largest company in its industry, (2) and each boasts an imminent and long respected name in the business community. Moreover, shares of both afford at this time an above average dividend yield.

**Freeport Sulphur Company**

The advance of the Dow-Jones Industrial Average to new high ground the first week in January was achieved without any help from sulphur stocks. The fact is that, in 1959, the performance of sulphur shares was soggy indeed, and Freeport was no exception. Sulphur prices since 1956 have been quite unbouncy due to expanded Mexican production and, more recently, to output from newer sources in Southwest France and Western Canada. (These newer entries get their sulphur not from "domes" but by extraction from sour natural gas.)

The Free World produces totally about 16 million tons of sulphur annually of which Freeport Sulphur delivers 12½% (2 million tons). From this, Freeport Sulphur derives 75% of its present earning power. Despite the deliveries by newer producers, sulphur prices in recent months have become quite stabilized. They should be firm to higher this year due to peak steel demand, rising industrial and fertilizer demand and the built-in growth rate of about 4% a year.

Freeport also has another major string to its bow about which it had high hopes—a substantial investment in nickel production. Unfortunately, however, its ore reserves are in Cuba. These stores of ore are huge, perhaps three times as great as Canadian reserves; but they require a rather complicated separation and extraction process. The Nicaro Nickel plant at Nicaro, Cuba, was supplying the ores to turn out 50 million pounds of nickel annually, until Castro started his turmoil. In fact, Nicaro Nickel Co. delivered $1,500,000 a year in dividends to Freeport in 1957, 1958 and 1959. A second Cuban investment, the Freeport Nickel Company plant at Moa Bay had been moving into production at an annual rate of 50 million pounds of nickel and 4.4 million pounds of cobalt, with full output contracted for by the United States Government until 1965. But due to the restrictive attitude and measures of the present hirsute Cuban government, taxing 5% on ores mined and 5% on concenrates exported, the Cuban nickel investment of Freeport is under a cloud. There is some basis for optimism over time since the U. S. Government itself owns the Nicaro concentrating plant to which Freeport supplies the ore; and our government is, under present contracts, the largest single buyer of nickel. Damaging as all this is to Freeport's immediate earning power, the uncertainties appear to have been amply discounted in the present prices for Freeport Sulphur common. Although the company will turn in an all-time high in earnings for 1959 of around $1.90 per share the stock today at 24⅞ sells 13¼ points below its 1959 high.

There are, moreover, brighter spots in the picture. There is substantial oil and gas production in Louisiana, Oklahoma and Texas; and a joint ownership, with Consolidation Coal Co., in National Potash Co., a producer of potash in New Mexico.

Investors, viewing Freeport Sulphur common as a vehicle for current investment, are bound to be impressed by the company's balance sheet assets, apart from plants and mineral reserves. Freeport Sulphur has no debt and no preferred stock, merely 7,517,400 common shares outstanding. Marketable securities alone, mainly in Government bonds, are equal to over $8 a share on this common. F T common has paid dividends continuously since 1927. The present rate is $1.20 affording a yield of 4.95% on the 24⅛ price. F T presently should be regarded as a long respected and mature equity, not a market favorite at the moment, but capable of considerable resurgence, particularly if and when political and economic sense and a stable government return to Cuba.

**J. P. Stevens & Co.**

Here is one of the authentic veterans of the American business scene. Founded in 1913, J. P. Stevens & Co. is the seventh oldest company, of those whose shares are listed on the New York Stock Exchange. It has taken plenty of stamina to survive in the volatile textile business, and the casualties have been legion.

J. P. Stevens today is one of the most diversified textile manufacturers with 49 plants, about half in New England and half in the South. Of total sales, about 35% comes from synthetics; 40% in cotton goods (two-thirds of the finished variety); and 25% in woolen and worsted fabrics.

Since about mid-1958 textiles have been in a recovery phase, accompanied by some rises in prices, longer work weeks, and a better inventory situation, and much larger backlog. The price of cotton print cloth has advanced about 25% in the past year and profit margins have substantially improved.

J. P. Stevens & Co. is not only a large scale manufacturer but it ranks as one of the largest selling agents for other textile mills. It also supplies a lot of factoring credit to the trade. One of the things about J. P. Stevens which has been attracting investors is the huge postwar plant investment, now paying off in expanded earnings. Since 1946 over $200 million, or more than $50 a share, has been devoted to plant modernization addition, and acquisition. Sheets and pillow cases are turned out in the most modern and streamlined plants in the business, the Utica and Mohawk mills. As a further step forward, Stevens has a joint venture with Kimberly-Clark, one of the most successful and sophisticated companies in the paper business, to manufacture and merchandise non-woven materials. This project will involve an outlay of about $10 million ($5 million from each partner).

The fiscal year for J. P. Stevens ends on Oct. 31. For 1958-9 the results were the best in history with sales over $60 million above last year and net per share of $4.25, amply covering the present dividend of $1.50. For the year ended last Oct. 31, the company enjoyed a tax base rate of about 25% which of course, helped out in the net earnings department. This year, even with the full 52% tax in effect, earnings are expected to move into higher territory, probably around $4.75 a share. This would be the best result since 1950/51 when $5.65 per share was reported.

STN common now sells at about 30½, yielding a shade below 5%. The $1.50 dividend seems well protected here, and the yield is unusually generous. Dividends have been paid without interruption, since 1935, and at the $1.50 rate since 1947.

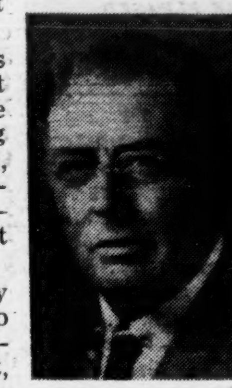
Another point favoring this equity is its strong balance sheet position. Working capital is above $20 a share. After deducting long term debt of $58 million, book value on the 4,100,000 common shares is over $50 a share—about $20 over the current market quotation.

We're in a consumer economy and STN is definitely in line to benefit from same. It has an excellent plant, sturdy balance sheet, rising earning power, good management, an attractive dividend and the equity has been added to a number of sophisticated investment accounts in recent months. If the market starts to surge upward again, STN is an issue that could attract a lively following. It's quite strong on the old-fashioned fundamentals by which shares used to be judged. If it were only an electronic it would be selling at 90 right now!

Today's selections have the virtue of being a little unusual. With Castro beating the brains out of the Cuban economy, it may seem a little bold to suggest a company with a major investment in that bearded enclave—even at the year's low. J. P. Stevens, a textile issue, is perhaps one you're more likely to cotton to!

# Jones Chairman Of Coast Exch.

William H. Jones of Los Angeles, President of the William H. Jones & Co., has been named as new Chairman of the Governing Board of the Pacific Coast Stock Exchange. He succeeds George W. Davis of San Francisco, partner of Davis, Skaggs & Co.



William H. Jones

Mr. Jones is now serving his second term as Chairman of the Governing Board of the Los Angeles Division and was Vice-Chairman of the Pacific Coast Stock Exchange last year. Previously he had served two three-year terms as Governor of the Los Angeles Division. He has been actively engaged in the securities business since 1922 and before coming to Los Angeles he was associated with the Bankers Trust Co., of Denver, Colorado.

Warren H. Berl of San Francisco, partner of Sutro & Co., was named Vice-Chairman of the Pacific Coast Stock Exchange Governing Board. Mr. Berl is Chairman of the San Francisco Division Governing Board and had previously served two terms as a Governor of that Division's Board.

Other members of the 1960 Governing Board are Ernest E. Blum of Brush, Slocumb & Co.; Calvin E. Duncan of Calvin E. Duncan & Co.; McClarty Harbison of Harbison & Henderson and Chester L. Noble of Noble, Tulk & Co.

Ex-officio Board members are Ronald E. Kaehler and Thomas P. Phelan, Presidents, respectively, of the San Francisco and Los Angeles Divisions of Pacific Coast Stock Exchange. Ruth Kapelsky of San Francisco was named to serve as Secretary-Treasurer.

## CORRECTION

Through an unfortunate transposition of names the photographs of Harllee Branch, Jr., President of the Southern Company, and

Harllee Branch, Jr.

Harry A. DeButts

Harry A. DeButts, President of the Southern Railway System, were reversed in the Jan. 21 issue of the FINANCIAL CHRONICLE. The CHRONICLE is happy to correct this error and identify Mr. Branch and Mr. De Butts correctly.

# DEALER-BROKER INVESTMENT LITERATURE AND RECOMMENDATIONS

*IT IS UNDERSTOOD THAT THE FIRMS MENTIONED WILL BE PLEASED TO SEND INTERESTED PARTIES THE FOLLOWING LITERATURE:*

**Appraisal of Business & Stock Prices** — Nine page report included in Business & Investment Timing Service — **Eight weeks' trial subscription $5.00 (annual subscription $60)** — Anthony Gaubis & Co., 122 East 42nd St., New York 17, N. Y.

**Automobile Industry** — Review — Goodbody & Co., 2 Broadway, New York 4, N. Y. Also available is a survey of the **Steels, data on Allis Chalmers, International Telephone & Telegraph Corp.,** and **McKesson & Robbins,** and an analysis of **American Telephone & Telegraph Co.**

**Burnham View—Monthly Investment Letter—Burnham and Company, 15 Broad Street, New York 5, N. Y. Also available in current Foreign Letter.**

**Canadian Income Taxes and Other Legislation** — Revised booklet — The Bank of Nova Scotia, New York Agency, 37 Wall Street, New York 5, N. Y. Also available is monthly review of **Canadian Business.**

**Canadian Iron Ore Producers** — Analysis—James Richardson & Sons, Inc., 14 Wall Street, New York 5, N. Y. Also available is a tabulation of price changes of selected Canadian stocks in 1959.

**Canadian Situations**—Discussed in January edition of Monthly commentary—John M. Easson & Co., Limited, 217 Bay Street, Toronto 1, Ont., Canada.

**Chemical & Pharmaceutical Briefs** —Review with price indexes for stocks in the industry — Smith, Barney & Co., 20 Broad Street, New York 5, N. Y.

**Fire & Casualty Stocks** — Memorandum—John C. Legg Company, 22 Light Street, Baltimore 3, Md.

**Gas Pipelines and Natural Gas Producers**—Memorandum—Jackson, McFadyen Securities Limited, 455 Craig Street, West, Montreal, Canada.

**Gold Stocks for 1960**—Outline of 25 issues—Draper Dobie & Company Ltd., 25 Adelaide Street, West, Toronto, Ont., Canada. Also available is an analysis of the **Bank Index Theory,** and a memorandum on **Falconbridge Nickel Mines.**

**Gold & Silver Operations** in Canada — Bulletin — Brewis & White Limited, 145 Yonge Street, Toronto, 1, Ont., Canada.

**Japanese Stock Market**—Study of changes in postwar years—In current issue of "Nomura's Investors Beacon"—Nomura Securities Co., Ltd., 61 Broadway, New York 6, N. Y. Also available is a review of the outlook for Plant and Equipment Expenditures in Japan for 1959 and brief analyses of **Mitsubishi Heavy Industries, Nippon Flour Mills Co., Iwaki Cement Co. and a survey of the Steel Industry.**

**Japanese Stocks**—Current Information — Yamaichi Securities Company of New York, Inc., 111 Broadway, New York 7, New York.

**Market Outlook** — Survey — L. F. Rothschild & Co., 120 Broadway, New York 5, N. Y.

**New York City Banks**—Annual comparison of earnings — Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y. Also available is an analysis of **ACF Industries.**

**New York Bank Stocks** — 111th quarterly comparison of New York City bank and trust companies — New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

**Over-the-Counter Index** — Folder showing an up-to-date comparison between the listed industrial stocks used in the Dow-Jones Averages and the 35 over-the-counter industrial stocks used in the National Quotation Bureau Averages, both as to yield and market performance over a 20-year period — National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

**Outlook for 1960** — Review — Green, Ellis & Anderson, 61 Broadway, New York 6, N. Y.

**Outlook for 1960**—Analysis with reviews of **Electronics, Steel, Chemical, Automotive** and **Retail Trade Industries**—Orvis Brothers & Co., 15 Broad Street, New York 5, N. Y.

**Steel Stocks**—Review with particular reference to **Kaiser Steel, Lone Star Steel, McLouth Steel,** and **Washington Steel**—A. M. Kidder & Co., Inc., 1 Wall Street, New York 5, N. Y. Also available are analyses of **Copeland Refrigeration Corp., Springfield - Monarch Insurance Companies** and the **Soft Drink Industry.**

**Stocks for Income & Growth**—Bulletin — Illinois Company, 231 South La Salle Street, Chicago 4, Ill.

**Stocks for Income and Growth**—Circular—Eisele & King, Libaire, Stout & Co., 50 Broadway, New York 4, N. Y.

**Sulphur Industry and Gulf Sulphur Corp.**—Analysis—Edward H. Stern & Co., Incorporated, 32 Broadway, New York 4, N. Y.

**Sunray Mid Continent Oil Co.**—24 page booklet containing speech made by Sunray President Taliaferro before the New York Society of Security Analysts on January 19th—Sunray Mid Continent Oil Company, Dept. PR, Box 2039, Tulsa 2, Okla.

**Understanding Put & Call Options** — Herbert Filer — Crown Publishers, Dept. A-7, 419 Park Avenue, South, New York 16, N. Y.—$3.00 (ten day free examination).

**Your Guide to Business in Canada** —Includes a survey of the major Canadian taxes affecting business or personal interests in Canada—Business Development Department, Bank of Montreal, Montreal, Que., Canada (New York office, 64 Wall Street, New York 5, N. Y.).

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**A. C. F. Industries** — Review — Hemphill, Noyes & Co., 15 Broad Street, New York 5, N. Y. In the same circular are data on **Bausch & Lomb, Hercules Powder, Lerner Stores, Magnavox,** and **Standard Brands.** Also available is a list of stocks which appear interesting.

**Air Control Products**—Memorandum—A. C. Allyn and Company, Incorporated, 122 South La Salle Street, Chicago 3, Ill.

**Allied Chemical**—Memorandum—Pershing & Co., 120 Broadway, New York 5, N. Y.

**Aluminium Ltd.**—Memorandum—Merrill Lynch, Pierce, Fenner & Smith, Inc., 70 Pine Street, New York 5, N. Y. Also available are memoranda on **Federated Department Stores** and **State Loan & Finance Corp.**

**American Electric Power**—Data—F. P. Ristine & Company, 15 Broad Street, New York 5, N. Y. In the same circular are data on **Carrier Corp., Cities Service, Duffy Mott Co., Mack Trucks, Montgomery Ward, Oklahoma Natural Gas, Safeway Stores, Socony Mobil Oil** and **Southern Pacific.** Also available is an analysis on **Sterling Drug.**

**American Greetings Corp.**—Memorandum — Hallgarten & Co., 44 Wall Street, New York 5, N. Y.

**American Metal Climax**—Analysis —Joseph Mayr & Co., 50 Broad Street, New York 4, N. Y.

**Anderson Prichard Oil Corp.**—Memorandum—R. W. Pressprich & Co., 48 Wall Street, New York 5, N. Y.

**Barnwell Offshore, Inc.**—Survey —First Investment Savings Corp., 404 North 21st Street, Birmingham, Ala.

**Bethlehem Steel Co.**—Memorandum—Woodcock, Moyer, Fricke & French, 123 South Broad Street, Philadelphia 9, Pa.

**Celanese Corporation of America** —Analysis—Shearson, Hammill & Co., 14 Wall Street, New York 5, N. Y. Also available are reports on **Electric Utility Stocks, Steel Industry, Eurofund Inc.,** and **Investment Suggestions.**

**Chesapeake Instrument Corp.** — Memorandum—Weil & Co., Inc., 734 Fifteenth Street, N. W., Washington 5, D. C.

**Chromalloy Corporation**—Analysis—Lubetkin, Regan & Kennedy, 30 Pine Street, New York 5, N. Y.

**Continental Insurance Company**—Survey — Abraham & Co., 120 Broadway, New York 5, N. Y. In the same circular are surveys of **McGraw Edison Co** and **Western Auto Supply.** Also available is a pamphlet of common stocks on the New York Stock Exchange which have paid a cash dividend for 25 years or more.

**Crocker Anglo National Bank**—Analysis—Dean Witter & Co., 45 Montgomery Street, San Francisco 6, Calif. Also available are analyses of **Richfield Oil Corp.,** and **May Department Stores.**

**Dynamics Corp. of America**—Memorandum — Security Adjustment Corp., 16 Court Street, Brooklyn 1, N. Y.

**Eagle Food Centers, Inc.**—Study —Straus, Blosser & McDowell, 39 South La Salle Street, Chicago 3, Ill.

**Fairbanks Whitney** — Memorandum — Bear, Stearns & Co., 1 Wall Street, New York 5, N. Y.

**Fansteel Metallurgical Corp.** — Fahnestock & Co., 65 Broadway, New York 6, N. Y. Also available is a review of **Wilson & Co.**

**Fatima Mining Company Ltd.**—Annual Report — Fatima Mining Company Limited, 25 Adelaide St., West, Toronto, Ont., Canada.

**Garrett Corp** .— Memorandum — du Pont, Homsey & Co., 31 Milk St., Boston 9, Mass.

**Harsco** — Memorandum — G. H. Walker & Co., 45 Wall Street, New York 5, N. Y. Also available is a memorandum on **Babcock & Wilcox.**

**Jostens Inc.**—Memorandum—The Milwaukee Co., 207 East Michigan Street, Milwaukee 2, Wis.

**Jostens Inc.**—Memorandum—J. M. Dain & Co., 110 South Sixth St., Minneapolis 2, Minn.

**P. Lorillard Co.**—Analysis—Hayden, Stone & Co., 25 Broad St., New York 4, N. Y. Also available is an analysis of **Magnavox Co.,** and memoranda on **North American Car, Seismograph Service, Sonotone, Motorola, Frank G. Shattuck** and **American Marietta.**

**McCord**—Memorandum—Francis I. du Pont & Co. 1 Wall Street, New York 5, N. Y.

**New York Central System**—Report—Thomson & McKinnon, 2 Broadway, New York 4, N. Y.

**North & Judd Manufacturing** — Memorandum—J. Roy Prosser & Co., 11 Broadway, New York 4, N. Y.

**Outboard Marine Corporation** — Analysis—Eastman Dillon, Union Securities & Co., 15 Broad Street, New York 5, N. Y. Also available is a quarterly review of common stocks favored for investment.

**Owens Illinois Glass Co.**—Analysis — Hornblower & Weeks, 40 Wall Street, New York 5, N. Y. Also available is an analysis of **Borg Warner Corp.**

**Pearson Corporation**—Study—R. A. Holman & Co., Inc., 54 Wall Street, New York 5, N. Y. Also available are studies of **Performer Boat Corporation** and **Span America Boat Company, Inc.**

**Pittston Co.** — Analysis — Sutro Bros. & Co., 120 Broadway, New York 5, N. Y. In the same circular are reviews of **Anderson Prichard Oil** and **American Broadcasting - Paramount Theatres.** Also available is a memorandum on **Mergenthaler Linotype.**

**Public Service Co. of New Hampshire**—Analysis—H. Hentz & Co., 72 Wall Street, New York 5, N. Y. Also available is a review of the **Airlines,** and a list of stocks which appear interesting.

**Puerto Rico Water Resources Authority** — Annual Report—Puerto Rico Water Resources Authority, San Juan, Puerto Rico.

**Quebec Natural Gas Corp.**—Bulletin—Osler, Hammond & Nanton Limited, Nanton Building, Winnipeg, Man., Canada.

**Republic Steel Corp.**—Analysis—Glore, Forgan & Co., 40 Wall St., New York 5, N. Y.

**Rowe Furniture Corp.** — Analysis —First Cleveland Corp., National City East Sixth Building, Cleveland 14, Ohio.

**Russell Industries Limited**—Survey—Ross, Knowles & Co., Ltd., 25 Adelaide Street, West, Toronto, Ont., Canada.

**Ryan Aeronautical Co.**—Analysis —Jacques Coe & Co., 39 Broadway, New York 6, N. Y.

**Spiegel Incorporated**—Analysis—W. E. Hutton & Co., 14 Wall St., New York 5, N. Y. Also available is an analysis of **Mohasco Industries.**

**Standard Packaging** — Review—Cooley & Co., 100 Pearl Street, Hartford 4, Conn. In the same circular are reviews of **Ennis Business Forms, Inc., Farrington Manufacturing Co.,** and **Atlantic Research Corp.** Also available are data on **S. S. White Dental Manufacturing Co., Udylite Corp., U. S. Vitamin & Pharmaceutical Corp.,** and **Ranco.**

**Sunbeam Corporation** — Analysis —Hill, Darlington & Co., 40 Wall Street, New York 5, N. Y.

**Tex Tube Inc.**—Memorandum—G. A. Saxton & Co., Inc., 52 Wall Street, New York 5, N. Y.

**United Airlines**—Memorandum—Hecht & Co., 14 Wall Street, New York 5, N. Y.

**Universal Cyclops Steel Corp.**—Survey—Carl M. Loeb, Rhoades & Co., 42 Wall Street, New York 5, N. Y. Also available are reviews of **Whirlpool Corp.,** and **Texas Gulf.**

**Westinghouse Air Brake**—Analysis—Weingarten & Co., 551 Fifth Avenue, New York 17, N. Y.

**White Motor**—Review—Van Alstyne, Noel & Co., 52 Wall St., New York 5, N. Y. Also in the same circular is a review of **U. S. Plywood.**

**White Motor Co.** — Analysis — Reynolds & Co., 120 Broadway, New York 5, N. Y. Also available is an analysis of **Prophet Co.**

**Wilson Bros.** — Review — H. E. Herrman & Co., 52 Wall Street, New York 5, N. Y.

**Zotox Pharmacal** — Memorandum —L. H. Rothchild & Co., 52 Wall Street, New York 5, N. Y.

**Zotox Pharmacal Co.**—Analysis—Coburn & Middlebrook Inc., 100 Trumbull St., Hartford 1, Conn.

## J. D. Gates Opens

CARMEL, Calif.—John D. Gates is engaging in a securities business from offices here. Mailing address is Route 3, Box 352.

## New Edwards Branch

KEW GARDENS, N. Y. — A. G. Edwards & Sons has opened a branch office at 126-02 Queens Boulevard under the management of Vincent La Femina.

# Outlook for Interest Rates And the Capital Markets

*By Raymond Rodgers,* Professor of Banking, Graduate School of Business Administration, New York University*

**Still higher interest rates and continuation of capital-scarcity through 1960 is envisaged by banking-finance economist. He concludes that this plus greatly increased land costs and higher wage and tax costs add up to making building industry's financing needs a real problem in the months ahead. The economist offers a six-point summary in support of his prediction in which he posits the view that Congressional relaxation of the 4¼ interest rate ceiling on government bonds would further increase the demand for long-term funds. Declares that only a consequential break in the stock market or the business cycle could materially reduce interest rates.**

It seems beyond question that 1960 will be one of the most hectic years our money and capital markets have ever had in peacetime. At least, all signs point "that-a-away."


Raymond Rodgers

Interest rates are the result of identifiable forces which can be analyzed and weighed. Instead of wishful thinking, an unbiased appraisal of the forces operating in the economy, regardless of where the chips fall, is what I shall present rather than mere pontifical predictions on the interest rate pattern.

### Pressures Are Complex

Unhappily any such analysis, today cannot be a simple one as the pressures have never been more complex.

More specifically:

(1) A determined attempt is being made to turn monetary policy into a political football in the name of growth in the economy (and 1960 is an election year!).

(2) A policy of rigorous credit restraint is being followed although our inflationary pressure is largely of the **cost-push** variety.

(3) A world-wide dollar shortage has, in one of the most striking about-faces in financial history, turned into such an oversupply that the international value of the dollar must be protected despite a substantial outflow of gold during the past two years.

(4) Serious proposals for further reduction of the gold control of our dollar are being made, even by conservative commercial bankers.

(5) People want to spend more, borrow more and save less — a manifest impossibility without inflationary credit expansion.

(6) Government—Federal, State and local—likewise wants to borrow more, spend more and tax less.

(7) Bond yields continue to run ahead of stock yields. This yield distortion has prevailed for a year and a half; moreover, throughout 1959, the gap was at least one full percentage point. The only comparable previous period in this century was that of 1929. And,

(8) The government, instead of lending a helping hand in home financing, as had become traditional in recent years, through the Magic Fives actually took funds away from the home construction field—and Secretary Anderson's assistant, Mr. Charles E. Walker, last November said, they would "tailor occasional future offerings" along similar lines.

These, and still other factors which could be mentioned such as the bottomless pit of agricultural price support, all guarantee that 1960 will be an interesting if not reassuring, year in mortgage banking.

### Politics vs. Economic Realities

As 1960 is an election year, the political aspects of the monetary outlook will first be examined. The Advisory Council of the Democratic Party recently issued a manifesto attacking the tight money policy of the Federal Reserve authorities on the ground that it hampers economic growth, increases the cost of carrying the public debt, and penalizes the small businessmen and individuals who have to borrow. This they asserted, was to the benefit of the large lenders, especially the commercial banks. This statement gave support to the belief of many that if the Democrats should win the election in 1960, the credit policy of the Reserve authorities would be reversed and interest rates would decline sharply. This is so important that it should be examined carefully and objectively.

The first thing to be noted is that the prevailing high levels of interest rates are the result of demand and supply factors — they are not an invention of the Republican Party. As everyone knows, the demands for credit from business, from the ultimate consumer, and from real estate financing have been very large during the past 18 months. In addition, the Treasury during the past fiscal year had a deficit of $12½ billion which had to be financed through the short-term market, since it could not pay more than 4¼% on bonds with a maturity of five years or more. At the same time, even though the demand for money was very great, the Reserve authorities because of inflation and the change in the international position of the dollar had to adopt a policy of credit restraint. But even under this policy, they did not reduce the supply of credit—**they merely stopped increasing it.**

It follows that the basic complaint of the Democratic leaders then is that the Federal Reserve authorities should have made money easier and prevented an increase in interest rates by providing the commercial banks with increased reserves. Of course, they could have done this easily as money is the one thing that can be created at will by governments or, under our laws, by the central bank. In this country, the Federal Reserve Banks merely have to buy government securities in the open market or lower the reserve requirements to increase the availability of bank credit and lower interest rates. This, however, would mean that bank credit would take the place of savings. The money supply would increase and the inflationary forces would become more pronounced than they are at present. Thus, the Democratic Advisory Council advocated lower money rates even though it also favors relative stability of the purchasing power of the dollar. **But, obviously, both objectives cannot be attained at the same time.**

Even more to the point, the mere fact that the Advisory Council of the Democratic party favors lower money rates does not mean that a Democratic Administration would adopt such a credit policy. As under the Republican Administration, so under a Democratic Administration, the cost of money will depend, primarily, on business conditions and on the demand for money. If the level of business remains high, if inflationary pressures persist, and if the demand for credit remains pronounced, money rates will remain high regardless of what political party may be in power. By the same token, if business activity turns down, the demand for money will weaken and money rates will decline.

### Role of the Federal Reserve Board

In connection with any evaluation of political influence on monetary policy, the following facts should be borne in mind:

(1) The Federal Reserve Board is an independent agency and if an Administration should bring pressure on the Reserve authorities to change their credit policy against their will, most of the members of the Board would resign. Also, if any serious effort is made in the future by Congress to reduce the powers of the Reserve authorities over the money market, it would be a clear indication to the world at large that monetary discipline would disappear and that inflation had become a basic part of the economic policy of this country. The inevitable consequence would be galloping inflation.

(2) Finally, any responsible Administration would bear in mind that the Federal Reserve authorities have to protect the integrity of the dollar abroad. If, at a time when the demand for money is great and inflationary pressures persist, the Reserve authorities should adopt a policy of credit ease, it would induce foreign holders of short-term assets in the United States to convert them into gold. An outflow of gold on a large scale would ensue; and this would force the Reserve authorities and the Administration either to adopt a policy of active credit restraint or to devalue the dollar. Obviously, no political party could afford to refuse to protect the value of the dollar under such clearly discernible conditions.

In view of the independent role of the Federal Reserve Board and the new responsibility for protection of the internal value of our dollar, it seems clear that so long as the demand for money remains high, money rates will remain high, and no change in Administration could materially alter the economic fact of life. Furthermore, the same factors warrant the conclusion that even in periods of declining business activity in the future money rates may not decline to the levels of 1953-54, or even of 1957-58.

### The Money Market Outlook

Now that the economic and financial background has been sketched, what is the outlook for interest rates?

The money market, or short-term sector, will first be considered, as there has been considerably more action here than even in the long-term market.

The first thing to note about the short-term money market is the abnormally high rates caused by the unwillingness of Congress to authorize a higher interest rate than 4¼% on obligations maturing in five years or more. As a result of this arbitrary limitation, all of the marketable securities sold by the Treasury during the second half of 1959 carried maturities of less than five years. This great increase in demand in the short-term market caused rates to skyrocket to levels not seen since 1933.

Looking ahead the demand for short-term funds will be strong. It will come from:

(1) **Business** — To accumulate inventories, particularly steel and automobiles. The greater volume of business and the higher costs of doing business will further substantially increase the demand for bank credit.

(2) **Consumers**—to buy a rising volume of consumer durable goods, especially automobiles and, also, home furnishings. The number of houses completed during the year will be very large. This always causes a substantial demand for home furnishings.

(3) **Government financing**—to absorb some of the large volume of last year's issues from temporary holders. Although the Treasury will not **directly** play such an important role in the money market in the first half of 1960 as it did during 1959, its problems will continue to plague the market. For example, corporations which, on the whole, were large buyers of short-term government securities in 1959, will be sellers of such obligations in the first half of 1960, partly because of accumulation of inventories, partly because of increased expenditures on plant and equipment, and partly because of rapid growth of accounts receivable. Since these sales cannot be financed through bank credit expansion, because of the tight money policy, they will consequently press on the supply of savings available in the market.

In contrast to the strong demand, the supply side is limited no only by the credit restraint policy of the Federal Reserve authorities, but also by the internal ratios of the banks themselves. In fact, loan-deposit ratios have reached such a high level in many banks that credit is necessarily being rationed.

As a result of these, and other factors, short-term rates will not only remain high—they will go higher. The rate on brokers loans has already gone up and the discount rate and prime rate must be expected to "follow suit."

### The Long-Term Market

The outlook for rates on longer-term money is more complex and much more difficult to estimate as it depends on many factors which cannot be predicted with any certainty. But, we can be sure that money will be tight and interest rates strong until next fall, at best and such conditions could prevail even longer, at worst.

What is the basis for this foreboding? It is based on these considerations:

(1) The economic growth of the Soaring Sixties will require great amounts of capital. In addition to capital expenditures, the growing volume of business and higher costs of operations, particularly wage costs, will have to be financed.

(2) Inflationary pressures, such as the steel-wage settlement, will reduce the flow of funds into mortgages and bonds as people try to protect the purchasing power of income and principal. But even more important, these inflationary aspects will cause people to spend more and save less. This is clearly the most important economic problem facing the American people.

(3) Living standards have risen faster than income through a growing use of consumer credit

*Continued on page 53*

# Wall Street Nervousness And Confiscation Threat

By Roger W. Babson

**Financial publicist advises that no one knows whether we are yet in a real bear market and, therefore, investors should sell enough stock to get out of debt. Admitting he sees no sign of property confiscation here, Mr. Babson notes, nevertheless, the thought of it may be a reason for softening stock prices. He examines labor proposals regarding voting power of stock; attests it was "labor's threat" to have the Federal Government seize the voting power of steel stocks that brought on the steel strike settlement; and recommends, in the event of labor ingress into corporate control, investing in insurance policies and insurance stocks.**

Wall Street friends of mine who were bullish a few months ago, then later advised caution, now write me that they are "confused."

**Russia's Temporary Success**

People who have visted Berlin, East Germany, Warsaw, and Moscow come back with this feeling—Although Communism and Mr. K will probably go out of existence, yet the campaign to gradually eliminate private property is something you should not overlook.

All over Europe tendencies in this direction are observed. What is now going on in Cuba is a reflection of what we see in Italy, France, and even West Germany. This tendency is beginning to confuse Wall Street, even the most bullish. They still feel, however, that if the evils of labor unions and inflation could be checked, then 1960 might see even higher stock market prices than have yet been reached.

**Land vs. Stocks and Bonds**

It is true that in the history of most land seizures and confiscations of tangible property the land has ususally been returned to the original owners. But where private property has been confiscated and then covered by large state-owned or municipal-owned apartment houses, as in Warsaw and Moscow, return of the land seems almost impossible. In short, there is a good chance that the sugar lands of Cuba which have been taken from American corporations will be returned to them so long as they remain farm land and are not built upon.

Wall Street, however, does not know whether it would be possible to return to their rightful owners the stocks and bonds which may someday be confiscated. No one knows, as not enough confiscations of stocks and bonds have occurred to provide the answer. A "hedge against inflation" may not be too hard to obtain; but a "hedge against confiscation" is a much more difficult matter.

**1960 Stock Market Very Important**

I now see no possibility of such confiscation here; but the very thought of it may be a reason for softening stock prices. The sellers of stocks certainly appear more anxious to sell than the buyers are to buy. This is what the Street calls a technical reaction. The Dow-Jones Industrial Average was about 600 a year ago. It reached a high of 678 in August and another high of 685 on Jan. 5, 1960. Then it began to slide off and is now fluttering around 650. No one knows whether we are yet in a real bear market; but investors should surely sell enough stocks now to get out of debt.

The American people are much like a flock of sheep. When a few leaders jump over a wall, the majority feel obliged to follow. This especially applies to Congressmen, who should be our real stabilizers; too many of them, however, think they must "follow the leaders" in order to be re-elected. For this reason, I sincerely hope that both the stock market and general business will continue good until after the November elections. Otherwise both Republicans and Democrats may make promises which would lead to seizure of the voting power of certain securities. This must be avoided at all hazards.

**Why Was the Steel Strike Finally Settled?**

Frankly, it was because of labor's threat to have the Federal Government seize the voting power of the steel stocks. Although confiscation of certain stocks and bonds may come someday, what Wall Street now fears is that union labor may try to force a transfer of the voting power of the big steel, motor, and certain other stocks over to the Federal Government and gain for labor direct representation on the boards of directors. The next step would be the confiscation of the voting powers of the big mutual funds and life insurance companies.

Finally, I ask what will happen to Florida, California, and other states to which retired people are now flocking if our corporations are so handicapped by labor unions and inflated costs that they can make no money with which to pay into pensions? Those who are already retired, of course, have nothing to fear; the corporations have deposited enough money in trust companies to fully protect employees who are already retired. Both insurance policies and insurance stocks should be safe investments. These will be protected by Congress, whoever holds the voting powers of the stocks.

# Hattier & Sanford Formed in New Orleans

NEW ORLEANS, La.—Hattier & Sanford, Whitney Bank Building, has been formed as successor to White, Hattier & Sanford, which has been dissolved. Partners are Gilbert Hattier, Jr. and J. B. Sanford, Jr.

Associated with the new firm are L. J. Bouche, W. C. Hildebrand, William W. Norcross and Gus A. Reynoir.

# Lewis V. P. of Crosby Corp.

James R. Lewis has been made Vice-President of the Crosby Corporation. Mr. Lewis will make his headquarters in the New York office, 111 Broadway.

## With Lee Higginson

The investment banking firm of Lee Higginson Corporation, 20 Broad Street, New York City, members of the New York Stock Exchange, has announced that Irvin Hood and John L. Sheary have joined the firm as registered representatives.

## Form Crystal Secs.

WEST NEW YORK, N. J. —The Crystal Securities Corporation has been formed with offices at 33 Sixty-fourth Street to engage in a securities business. Officers are John A. Naharian, President; John R. Halligan, Secretary; and John E. Murphy, Treasurer. Mr. Naharian was formerly with Diran, Norman & Co.



# PUBLIC UTILITY SECURITIES

BY OWEN ELY

## Toledo Edison Company

Toledo Edison serves 2,500 square miles and a population of over half a million people in northwestern Ohio. This is considered one of the country's choicest industrial locations, with 60% of the U. S. population within 500 miles. All forms of transportation facilities (including the Ohio Turnpike) connect the area with principal markets and suppliers. Besides the city of Toledo, the area includes 150 smaller cities and towns together with 14,000 modern and prosperous farms. Toledo accounts for about 60% of the population served.

The company has a fairly high percentage of industrial business, 38% of revenues being in this classification compared with 36% residential and rural. Principal industries in the area are automobile and auto production, glass manufacture, oil refining, and steel and metal fabrication. The growth in revenues has been less than average in the ten years ended 1958—80% compared with and industry average of 117%. However, a favorable new factor was the opening of the St. Lawrence Seaway last April, which resulted in a jump in Toledo imforts of 267%, and in exports of 116%, in the second quarter of 1959. Toledo is very favorably located with respect to the Seaway, having excellent port facilities. As a result of the opening of the Seaway plans were announced by the grain industry for a group of multi-million bushel facilities to be built in Toledo. At the same time, ground was broken for a 6,500,000 gallon facility for handling and warehousing bulk liquids.

Toledo's harbor contains a channel 16½ miles long with a minimum width of 400 feet, allowing plenty of room for docking and warehousing. It is a natural western terminus of the seaway system and 61% of the nation's wheat production is within a 500-mile radius. Compared with New York, Toledo is closer by 1,000 miles to such north European ports as Helsinki, Copenhagen and Stockholm.

The company has ample generating capacity—four steam plants with a capability of 648,000 kw., plus a 4,000 kw. hydro plant and 7,500 kw. of firm purchased power. Peak load in 1958 was 449,000 kw. but the 1959 figure was probably substantially higher, since air-conditioning sales were quite heavy due to the unusual heat in the area (kwh. sales in the third quarter exceeded those of the previous year by 14%). The second 135,000-kw. unit for the Bay Shore Station was placed in commercial operation in March.

The company's record of share earnings has been quite stable, but only a modest increase has been registered in the past decade. While earnings jumped from 69c in 1948 to 94c the following year, they remained in a range of 91c-$1.06 through 1957. In 1958, with the aid of a sharp increase in the credit for interest on construction, earnings advanced to $1.12. The rather mediocre showing with respect to share earnings (as compared with the industry average) appears due mainly to the decline in the percentage earned on net property—from 8.2% in 1949 to 5.4% in 1958, according to Standard & Poor's (there was a moderate recovery to 5.7% in the 12 months ended Sept. 30, 1959).

The recent rate of return would be still lower if calculated on a fair value rate base (in theory, Ohio utilities are entitled to cost of reproduction) and some allowance for working capital would also be in order. Use of an average (mid-year) rate base would be a partial offset to these factors. The company has apparently made no move as yet toward seeking a rate increase. Residential rates in 1958 averaged 2.40c per kwh. compared with a national average of 2.53c.

As indicated above, 1958 earnings showed a fair-sized gain (about 11%); however, this was explained by a sharp increase in the credit for construction. With completion of the new generating unit early in 1959, the interest credit declined again amounting to only $4,000 in the third quarter compared with $282,000 in 1958. Thus the gain of nearly 8% in gross income for the 12 months ended Sept. 30 was about cut in half, share earnings being $1.16 compared with $1.10 in the previous 12 months. The effects of the steel strike were slight up to the last quarter, but could have had an adverse effect on earnings for the December quarter. Earlier, President-elect John K. Davis (who succeeded the late President Ide on Sept. 2) had forecast that 1959 earnings might about equal the $1.12 earned in 1958.

Last year's construction program was about $7 million and this year's expenditures may run closer to $8 million. Only a modest amount of new capital was required for construction in 1959, being obtained from bank loans, and apparently no public financing is contemplated in 1960. The Company's equity ratio was 28.4% as of Sept. 30, 1959.

The common stock came into the hands of the public in 1950; in 1951 a dividend rate of 70c was established and this is still maintained. However, present payout is only about 60% of earnings and hence an increase in the dividend rate would seem warranted, the average industry payout being 70%.

The stock has been selling recently around 16¼, the 1959-60 range approximating 17-15½. The yield is 4.3% and the price-earnings ratio (using an estimated current rate of $1.15) would be 14.1.

# Lutus Asst. Treas. Of Mass. Ins. Co.

BOSTON, Mass.—The Directors of Massachusetts Hospital Life Insurance Company, 50 State Street, Trustee of Massachusetts Life Fund, has appointed Richard A. Lutus, Assistant Treasurer. Mr. Lutus has been in the Accounting Division of the Company since 1941.

# Coffin & Burr Appointments

BOSTON, Mass.—Coffin & Burr Incorporated, 60 State Street, members of the New York and Boston Stock Exchanges, have announced that Chenery Salmon has been named a Vice-President of the firm and will make his headquarters in the Boston office; Alan C. Leland has been elected Assistant Vice-President and has been transferred from Boston to the firm's syndicate department in the New York City office, 70 Pine Street. Grace M. Daw, formerly chief clerk and a registered representative, becomes an Assistant Secretary in the New York office.

# The Outlook for Equity Markets in 1960

*By Joseph P. Ripley,* Chairman of the Board, Harriman Ripley & Co., Incorporated*

**Mr. Ripley's analysis of the equity market's outlook for this year leads him to opine that well-chosen high-grade equities are preferable to bonds for individual investors with surplus funds to invest. He does not see the 1960 stock market flooded with enough good issues to cause significant downward price impact. Generally viewed he expects D-J Industrial Average ranking between 600 to 750 with no foreseeable reason for a wide-open break; stresses holding on to well-chosen stocks; and foresees higher bond yields will tempt some stock-minded investors even though D-J Industrials can be expected to pay higher dividends of 10 to 15% on the average and earn 20% more on an average in 1960 than in 1959.**

About a year ago I gave a few shares of a certain stock to my Alma Mater. The market at that time was $40 per share, which looked high to me. I conditioned my gift upon prompt sale by the University, and the University complied. The same stock has been recently quoted at $140 per share.

Joseph P. Ripley

The foregoing should forestall any possible thought that I can speak with authority on the "Outlook for Equity Markets in 1960."

Some momentous events are to take place in 1960. I refer to the coming Meeting at the Summit, the Elections, the possibility of a country-wide railroad strike, etc. Thus I cannot be held responsible for the accuracy of any prognostications which I now make, however timidly, about the stock market. I have been given the assignment and must deal with the subject.

It is my belief that the stock market **expects** and is **discounting** higher corporate profits and dividends in 1960 than those realized in 1959. The year 1959 was one of recovery from the business downturn of 1957 and 1958. It was not without its unfavorable aspects, however. Among these I have in mind (a) the longest steel strike in our history; (b) the continuing unfavorable balance of international payments, and (c) the pressure on bond prices arising partially from "tighter money" measures taken by the Federal Reserve authorities and from governmental financing problems which in turn stem from the 4¼% ceiling rate, from the heavy turnover of short-term Federal debt, and from governmental deficits. The pressure on bond prices was **unfavorable** to borrowers, but **favorable** to investors in debt securities.

Were it not for the steel strike, the effects of which extended far beyond the steel industry, the business recovery in 1959, in my opinion, would have been more extensive than it was.

Estimates which I consider reasonable are that the 30 Dow-Jones Industrials will earn on an average—per share—20% more in 1960 than in 1959, and that average dividends will be paid on these stocks in an amount 10 or 15% over 1959. Now, suppose this happens; then how would the Dow-Jones Industrial Average of 680, (which was the rounded-off figure at the end of 1959) look in relation thereto?

| | |
|---|---|
| Dow-Jones—end of 1959 | 680 |
| Estim. Earnings per share—1960 | 42 |
| Price/Earnings Ratio | 16.2 |
| Earnings/Price Ratio | 6.2% |
| Estimated Dividend per share | 22 |
| Yield | 3.2% |

In observing the foregoing figures, it should be noted that the variations **within** the group of the 30 Dow-Jones Industrials are **very great**. For example, the ratios of estimated 1960 earnings to 1959 year-end prices of the 30 companies range between 3.3% and 16.1% while the dividend yields based on 1960 estimated dividends and 1959 year-end prices range between 1.13% and 6.25%.

I now propose to compare the foregoing synthetic figures for composite earnings/price ratio and dividend yield for the Dow-Jones Industrials with the year-end returns available in the bond market. And I am going to confine the bond market yields to industrial bonds. The comparison is as follows:

**Dow-Jones Synthetic Estimated**

| | |
|---|---|
| Earnings/Price | 6.2% |
| Dividend Yield | 3.2 |

**Moody's Industrial Bonds (Dec. 30, 1959)**

| | Yield |
|---|---|
| Aaa | 4.47% |
| Aa | 4.57 |
| A | 4.70 |
| Baa | 5.15 |

Years ago—rightly or wrongly—it was generally thought that industrial common stocks should provide a dividend yield of 5 or 6% and sell on an earnings yield of something like 10%. Admittedly these figures were just rough rules of thumb—**very** rough.

As the market stood at the 1959 year-end and looking prospectively at 1960 dividends, it seems to me that dividend yields on stocks were out of line on the low side as compared with bond yields. The vital question is—will stock prices go down and dividend yields thereon go up to levels which compensate for this discrepancy, and will they do so during 1960. Of course, bond yields can also go down, but I have not been asked to comment on the outlook for the bond market. The pertinent point here is that, to yield 5% on a composite dividend of $22, the Dow-Jones Industrial Average would decline to 440 or some 35% below the figure at the end of 1959. (Up to a week ago the Average had already gone down 24 points or 3½%.)

### Prefers Selected Stocks for Long-Term Investments

What are we to conclude? That is the $64 question. It seems to me that, in the light of:

(a) the taxation of income from dividends and interest;

(b) the **probability** of further deterioration of the dollar (it has gone down in the ratio of nearly four to one in my adult lifetime);

(c) the **possibility** — indeed, **probability** — of **further increases** in corporate profits and dividends as time goes on, as compared with the **absolutely fixed** interest return on bonds in terms of the dollar, that well-chosen high-grade common stocks constitute better mediums for **long-term** investment than do bonds for individual investors with surplus funds to invest. Various well-constructed comparisons of investments in bonds versus stocks, over extended periods of time, satisfy me that such has been the case, generally speaking, in the past. But let me hasten to say that by the foregoing I do **not** mean to say that common stocks constitute the **only** desirable medium of investment.

Furthermore, in the light of the wide **variations** in the market performance of various stocks, the element of **selection** is much more important with stocks than with bonds. To put it another way, corporate mortality is more apt to destroy a stock than a bond.

Having expressed the opinion that well-chosen common stocks constitute better mediums for **long-term** investment for individual investors than do bonds, I presumably am expected to go further and express an opinion as to whether the stock market is now too high, about right, or too low. My answer is—who am I to answer such a question? The stock market represents the center of gravity of opinion of millions of investors. And it is clean as a whistle, by which I mean that it is not rigged. Also, the amount of money being borrowed against the stock market is very small and investors today are better and more reliably informed than years ago. I **will** venture to say that some stocks seem to me to be discounting the future too optimistically.

The question often arises as to whether our present stock market is headed for a crash such as the one which started in the late fall of 1929. My opinion is that there is little similarity in the two situations. I see no occasion to outline the essential differences.

Another more specific question: It is possible or probable that the stock market in 1960 will be overwhelmed or greatly influenced by a flood of new issues?

### Supply of New Offerings

Figures provided by the Securities and Exchange Commission for the first 10 months of 1959 indicate that the gross proceeds from new issues of common stock during this period were at an annual rate of about $2,050,000,000, which compares as follows with such financing in the three preceding years:

| | |
|---|---|
| 1958 | $1,334,079,000 |
| *1957 | 2,516,160,000 |
| 1956 | 2,301,091,000 |

*The peak year.

I should add that in 1959 total corporate financing, i.e., through bonds, preferred stock and common stock, including private placements, has totaled about $2,000,000,000 less than in 1958, despite the indicated increase of $670,000,000 in common stock financing in 1959 as compared with 1958.

Now, what do we conclude with respect to the supply and demand for new offerings of common stock in 1960. My observations are as follows:

(1) With increasing corporate business, increasing investment in industrial plant and equipment, etc., and with a favorable (i.e., from the standpoint of the issuer) stock market, there **should be** an increase in the amount of new stock issued for cash. And I think there **will be** such an increase.

(2) The amount of new issues of common stock will be very small in relation to the aggregate **size** (something like $300 billion for the New York Stock Exchange alone) of the stock market.

(3) The persistent and sustained purchases of common stocks by investment companies will continue. (The aggregate assets of investment companies amount to about $17 billion and in 1959 the **net** purchases of investment company shares amounted to about $1.6 billion.)

(4) Some institutional investors, such as insurance companies, trust funds, pension funds, foundations and endowment funds, particularly those of educational institutions, can be expected to continue to buy common stocks, although in the relatively recent past—and presumably also in 1960—there has been or will be some "switching" to fixed interest obligations in the light of the attractiveness of interest rates available on high-grade securities. Such "switching" is taking place not so much through the sale of common stocks as through the investment of **new** incoming money in a larger proportion of fixed interest bearing investments than otherwise might have been the case.

(5) The capital gains tax will continue to impede the sale of stocks now owned by investors.

(6) Equity for industrial enterprise—and for some utilities—will continue to be raised in substantial part from the issue of convertible debentures (some subordinated and some not subordinated) which are classed (and quite correctly so) as funded debt but which end up in many cases as equity through conversion.

(7) Industrial managers are **reluctant** to "thin out" the shares of their respective companies. They prefer to finance their requirements largely by retained earnings and borrowed capital.

(8) With interest paid a deductible item for tax purposes, it is still generally cheaper to finance outside new money requirements through borrowings rather than through stock issues.

In brief conclusion, I do not see the 1960 stock market being flooded with new issues in such quantity as to bring prices of existing issues materially downward. The volume of new common stock issues in 1960 in my opinion will lie between $2,000,000,000 and $2,500,000,000, probably toward the higher of these limits.

### Conclusion

My assignment obliges me to express some conclusions, however reluctant I am to predict what the stock market is going to do. One of my industrial executive friends says that it seems to him that when the market price of his own company's stock should go down it goes up; and vice versa.

I think I am free to narrow the question down a bit. I do so by saying that I am talking about the stock market as measured by the Dow-Jones Industrial Average which I think it fair to say is generally considered as the weathervane.

So, after narrowing the question down as aforesaid, I venture my opinion for 1960 as follows:

**(1) The persistent rise in the stock market through the end of 1959 from the middle of 1958 has carried the market to optimistically high levels; (2) the Dow-Jones Industrial Average will range from 600 to 750; (3) there is no foreseeable reason to expect a wide-open break off, say, 30%; (4) equities should not be sold just to reduce the equity ratio of a portfolio, although the size of the equity ratio should have a bearing in this respect; (5) increasing importance should be given to selectivity; (6) stronger competition and in some cases lower margins of profit—not necessarily followed by lower dollar profits—will obtain in industry; (7) across the board selling of stocks is not to be recommended, and (8) during the early part of 1960, at least, and perhaps thereafter, the attractiveness of bond yields as compared with current stock yields will tempt some money into investment in fixed interest bearing securities which otherwise would go into stocks.**

*An address by Mr. Ripley before the National Industrial Conference Board, New York City, Jan. 22, 1960.

# E. A. Wickens V. P. Of Mills, Spence

Ewart A. Wickens has been elected to the Board of Directors and appointed a Vice-President of Mills, Spence & Co. Inc., 115 Broadway, New York City.

# When Lease Financing Is Most Advantageous

By Donald R. Gant,* *Goldman, Sachs & Co., New York City*

**Of more than casual interest to financial analysts, corporate financial managers, public accountants and investors is Mr. Gant's analysis as to when lease financing is more advantageous than direct borrowing. The author discusses the legal and practical distinctions involved in distinguishing lease financing from direct borrowing; separates the spurious from the justifiable arguments favoring the former which he opines is an alternative method of borrowing; and provides methodological approaches for ascertaining when leasing is worthwhile even when direct borrowing is cheaper and available. Mr. Gant cautions the accountant against continuing to account for fixed assets on the basis of legal form rather than economic substance; the financial analyst against overstressing the importance of financial ratios; and the corporate financial managers against choosing the wrong financing alternative available to them.**

I would like to explore some of the considerations that bear upon this decision as to whether or not to use the lease as a financing device. In approaching this subject, I am first going to make some observations about the nature of lease financing, in order to put it in its proper perspective among other financing alternatives. Then using this frame of reference I will examine some of the principal arguments commonly advanced in support of lease financing. Finally, I will outline a suggested approach to the evaluation of lease financing proposals.

### Defines Lease Financing

I think it is important at the outset that we have a common understanding of just what the term lease financing encompasses. After all, leasing has been an accepted and widely used business practice for many years. There are undeniably many instances in which leasing offers the only practical means of obtaining the use of an asset.

An example of this would be the leasing of assets which are needed for only a short period of time relative to their economic life.

Another would be the leasing of office space in metropolitan areas, where the ownership of an entire building would be impractical.

Still another example might be the leasing of computers and other types of highly technical equipment, where the manufacturer offers continuing maintenance and protection against obsolescence under a lease arrangement.

These types of business leasing do not fall within my own concept of lease financing. Leasing takes on a financial aspect when the following conditions are present:

(1) A need for the asset by the company leasing it for all or a major part of its economic life.

(2) A lease which is designed to make the asset available to the company for this period.

(3) The absence of any operating reason which would make leasing preferable to ownership.

In practice, the types of leases which meet these conditions are easily recognizable. They invariably provide for a non-cancellable period during which the rentals are sufficient to amortize all or nearly all of the asset's cost and provide the lessor with an agreed upon return on his investment. And, they are usually on a net basis with the lessee assuming the expenses of maintenance, taxes, insurance and other responsibilities normally associated with ownership.

The thing which distinguishes these leases is that they are designed to serve as financing instruments rather than as leases in the traditional sense. Because of this, financial leases can be treated in common regardless of the assets to which they relate.

### Asset Itself Is Not Determinant

It makes little difference whether the asset involved is a building, a machine tool, a typewriter or any of the great variety of assets which is now possible to lease. It makes no more sense to distinguish between various financial leases on the basis of the asset leased than it would to differentiate between various debt issues on the basis of the initial use to which the borrowed funds were applied.

The only real importance of the asset is that its economic life tends to determine the term of the financing which the lease offers. Thus real estate offers long-term financing, equipment generally involves intermediate term financing, and motor vehicles short-term financing.

Otherwise the asset involved is relatively unimportant. What is important is the lease itself. The essential feature of the financial lease is that it represents a promise to pay and as such it qualifies as a general credit obligation.

Its uniqueness stems from the following very interesting phenomenon. If you enter into a contract which reads "I promise to pay x dollars a month for a certain period of years," it makes a great deal of difference in an accounting sense whether the title at the top of the page reads "Loan Agreement" or "Lease Agreement."

But the distinction is primarily an accounting one. In an economic sense and from the point of view of corporate financial policy, there is very little difference in the two types of transactions. Lease financing is merely a form of borrowing and lease obligations represent a form of indebtedness.

Consider, for example, the fact that the lease imposes upon the lessee a fixed obligation to make a series of future payments. These rental payments are legally enforceable claims, just as the interest and sinking fund payments of a debt issue.

### Financial versus Legal Distinction

It is true that there may be a difference in the treatment accorded a lease if the lessee is in bankruptcy. In the event that the trustee rejected the lease, the lessor would be entitled to a maximum claim of one year's rent in bankruptcy and three year's rent in reorganization proceedings. These claims would, of course, be in addition to the recovery of the leased asset.

This treatment differs from that accorded a secured debt obligation, where the lender would be entitled to a full claim for any deficiency between the realizable value of the asset and the amount owed him. This difference has been cited as an argument against classifying lease obligations as a form of debt, but in my opinion it is more a legal distinction than a practical financial one.

For one thing, inability to meet lease payments can lead to financial difficulties, just as surely as the inability to meet interest or sinking fund requirements. This is the important thing to the company as well as to the investor, not who gets what after the company is in bankruptcy.

Also, it is quite conceivable that in reorganization a lessor may enjoy a position that is actually senior to that of other creditors. If the leased assets are essential to the continuation of the business the trustee may be forced to continue the rental payments while other obligations are in default. This is the primary reason that railroads have been able to sell equipment trust certificates at attractive rates during periods when there was virtually no interest in general mortgage bonds of the same line.

But in any event, I don't believe that this difference should be a valid consideration to a company in choosing between lease financing and direct borrowing. I think it is highly questionable that a company should predicate its financial policy on eventual bankruptcy. A far more sound approach would be to assume that the company intends to stay in business and to meet its obligations, and from this viewpoint lease obligations have the same impact as debt securities.

Another indication of the similarity between lease financing and direct borrowing can be seen in the general pattern of lease transactions. The principal source of funds, either directly or indirectly, are insurance companies, banks, pension funds and other institutional investors. These investors are typically buyers of senior securities involving a minimum of risk. The fact that they are willing to advance funds upon the security of a lease indicates that they consider the lease a general credit obligation, which is just as secure as the lessee's ability to pay.

### Lease Financing Procedure

A very candid description of the lease financing procedure is found in the following excerpt from a memorandum circulated among prospective underwriters of a stock issue of one of the larger leasing companies.

"The leasing company's contracts are contingent upon its ability, using the lessee's credit, to borrow 100% of the funds necessary to purchase the equipment. This method of operation results in an unusual balance sheet. While equipment with a book value of $19 million and liabilities of $20 million are shown, neither the assets nor the liabilities are in reality the leasing company's."

Or consider the following comment from the 1958 Annual Report of Boothe Leasing Corporation:

"The company is primarily concerned with the credit standing of the lessee and the eligibility of the lessee for the long term credit implicit in a term lease agreement. It is secondarily concerned with the collateral value of the leased equipment."

Another interesting sidelight which bears upon this point is the accounting procedure followed by United States Leasing Corporation. This company shows as the primary assets on its balance sheet not the equipment which it owns but rather the future amounts due under its lease contracts.

All of this evidence merely strengthens the conviction that the essential function involved in lease financing is the granting of credit rather than the hiring of assets.

Another important consideration is the way in which the financial community regards lease obligations. A recent survey conducted among the major insurance companies, banks, investment bankers and rating services gives us some insight into this. The results are reported in the December, 1959, issue of the *Harvard Business Review*.

(1) With regard to long-term leases (those with terms of three years or more), 81% of the respondents considered them a form of debt, almost all ranking them with senior or secured debt.

(2) Regarding shorter term leases, there was somewhat of a divergence of opinion between long-term investors and short-term lenders. Some 69% of the commercial banks regarded them as debt, while only half of the insurance companies shared this view. This undoubtedly reflects the basic difference in their points-of-view, the commercial bank being concerned with the short-term picture and the insurance company taking the longer term view.

I realize that I have devoted a considerable amount of space to pointing out the close relationship between lease financing and debt financing but I feel that this is of basic importance to a realistic appraisal of leasing. For if leasing is not a form of borrowing, then it offers virtually unlimited possibilities. In fact, there would appear to be little justification for acquiring assets by any means other than leasing. It might even offer a solution to the government's financing problems. Perhaps through the sale and lease-back of government property, it would be possible to retire part or all of the national debt.

### Arguments in Support of Leasing

Unfortunately, however, lease financing is simply another alternative method of borrowing. With this perspective, let's now examine some of the principal arguments which are commonly advanced in support of leasing.

(1) I think it is safe to say that the one most frequently heard is that leasing frees working capital. There are many variations on this basic theme, but the line of reasoning generally is somewhat as follows: By leasing fixed assets a company can make the funds which would otherwise be tied up in those assets available for alternative purposes, such as working capital. The advantage lies in the fact that fixed assets offer a relatively low return compared to working capital, which can be turned over more rapidly, and therefore profits are maximized. The profitability of a particular company's working capital is often demonstrated by dividing its total net income by working capital, which usually indicates returns of 20% or higher.

This type of reasoning is prevalent in the retailing field where it is frequently argued that companies should stay out of the real estate business and devote all of their capital to merchandising activities.

There is also a school of thought in industrial circles which argues that a company should lease assets which offer a low return, such as warehouses and automotive equipment, and conserve its own capital for higher yielding investments. This theory has found great acceptance among the integrated oil companies. These companies have followed the policy of channeling their capital into areas of the business which offer the highest apparent return, such as exploration and production, while leasing assets which appear to offer a lower return, such as tankers and service stations.

The fallacy in this type of reasoning is its underlying premise that a company has a choice as to which of its assets it will finance. Unfortunately, this is rarely ever the case. There are many factors which determine a company's total capital requirements, but the method of financing employed is not one of them. Such factors as the technology involved and the scope of operations, policy decisions such as the level of inventories to be carried or the credit terms to be extended, all tend to fix the total amount of capital required. Since no one is likely to provide these assets free of charge, the choice remaining to the financial manager is how to finance them.

If you are going to operate a department store, in addition to merchandise and receivables you will require land and a building. In other words, you are in the real estate business whether you like it or not. And certainly you can't get out of it by merely transferring title to the property while continuing to operate it under a long-term lease.

And if you are going to have an integrated oil company, you will require tankers and service stations in order to realize the high returns which the production and exploration activities appear to offer.

The essential point here is that leasing is not a way of *avoiding* financing. It is financing. And it makes no difference whether you own profitable assets and lease unprofitable assets or vice-versa so long as you require both kinds.

The important question is the cost of leasing relative to other financing alternatives. The introduction of calculations which purport to show the relative profitability of various classes of assets

*Continued on page 44*

# The Role of the Lender In Equipment Leasing

By Gordon D. Brown,* Vice-President, The Bank of New York New York City

**Banking specialist in leasing describes the general conditions that a lender looks for in emphasizing what can be done to develop an improved acceptance of the lease and a greater supply of funds for lease financing. Mr. Brown distinguishes between leases and conditional sales; cautions against becoming preoccupied with the balance sheet, the accompanying operating statement, and the capitalizing of the lease; outlines suitable leasable areas; and underscores the importance of an enforcible document. In filling a current need for supplemental financing, he finds its acceptance is about where consumer financing and term loans were some 15-20 years ago.**

If money is plentiful lenders are not as difficult to interest as they are today when money is very tight. This change of pace confuses and frustrates some borrowers. It shouldn't for the same borrower will discipline his business so that he is going to be alive when conditions change. He alters his merchandise and his sales effort so that he will survive the swing in the cycle. Lenders are no different except they are supervised to make certain they will survive and so be available to serve the economy tomorrow. I hope you won't mind a plug at this point—the Bank of New York, the oldest bank in New York City founded by Alexander Hamilton 175 years ago, has not only survived all the depressions and panics, but has paid a dividend every one of its 175 years. Banks and all lenders are anxious to serve both today and tomorrow.

I suppose it would be most helpful if some pat formula could be established that would definitely assure the availability of money for leases. This is not possible, but there are some general guides that I can supply. As a starter—it is my observation that few borrowers fully appreciate how competitive the market is when seeking loans. Banks try to take care of an old and deserving customer's needs, even when money is tight. To do this most banks will be selective even when money is relatively free. If the borrower is not doing well when things are good, the lender can anticipate there will be trouble when the going gets rough. So—marginal companies, and companies in industries that are on a precarious footing, will not get the most favorable credit reception. There are both favorites and dogs in the stock market and likewise preferences will be found in the money market. The point of all this—if you are a lessor, be selective in your prospective lessees. If you are a lessee put your case forward in a concise presentation. If you have a real need for the equipment—your analysis of its worth to you is the first step toward the lessor being able to get the credit.

Although much of my paper will be a discussion on the fundamentals that lenders accept as guiding principles, I am sure you also have an interest in the lender's credit analyses. There is nothing obscure in the analysis procedure although it varies somewhat from one lender to another. A credit analysis should start off much as any businessman would attack one of his problems. Modern business is operated on analyses of each important function and variable that can be readily identified, therefore it is logical that credit should be approached in a similar manner. Don't expect that my discussion will have complete endorsement by all lenders, nor will lenders using the same approach come up with identical conclusions. This is not to be expected anymore than all manufacturers of radios, automobiles or airplanes will come up with identical designs although the same engineering data are available to each. The lender must approach his job in much the same way any manufacturer approaches his product design analysis. If a motor or machine tool manufacturer is starting on a design, the product's general characteristics are first established—for instance, in the auto industry the first step would be to identify the product type. Is it a sport car or a truck? If a truck, is it for city delivery or heavy earth moving duty? So with the credit analysis—is the lease for an electric typewriter, a vending machine, a truck, a marine tanker or a piece of real estate? Other "operating condition" characteristics also affect the analysis, thus paralleling to some extent the design analysis procedures every business practices. I am using these illustrations to take the mystery out of credit analyses, and to establish a common language.

There are no precise statistical measures to forecast earnings ability or the ability to repay debt. Analysis and interpretation of the mathematics of business can show the way, and analysis of the form of the borrowing can also show the way to advanced lending practices. I suppose one of the questions to be answered is—"What does the lender think of the practice of leasing"? That varies between lenders, but the lease is a very old type of agreement. It is simply another form of financing. It does have the possibility of emerging in various forms to do different jobs. In fact, I would say it is unusually variable in form. This has resulted in a real opportunity to exercise imagination. Those who have been able to spend considerable time and thought on leasing have become specialists. Going back through the history of finance you will find that questions were asked about the conditional sales contract when the straight mortgage was a more common security form. Consumer credit was not in common favor until very recently. Only a few years ago, the term loan was not considered sensible for a business or for a bank. After all, there was the equity market—and the management should float an issue of common stock or preferred or bonds if money were needed for more than seasonal periods. It seems to us that the lease is filling a current need for supplemental financing and is probably in about the same status as consumer financing and the term loan were some 15-20 years ago. Leasing companies in turn are probably in about the same position that finance companies were at that time. We do not believe that the lease replaces other forms of financing. We do believe it has proven to be an attractive form of "supplemental" financing and can be the basis of a satisfactory loan.

### Sources of Funds for Lease Financing

In considering the availability of money for lease financing we must start with a listing of the sources of funds, for each may have particular requirements. We can assume there are three principal sources: commercial banks, institutional investors and lenders such as insurance companies and pension funds. Actually there are several others and those we have listed break down into sub-classes such as the investment funds of university and religious organizations. Laws and charters of the insurance companies restrict the lending or investing they can undertake. Probably two of the most important characteristics of insurance credit are the emphasis on earnings record, and their restriction against owning anything except transportation equipment and improved real estate. There is some latitude exercised in the interpretation of their restrictions to these two types of property — for instance, passenger autos are classified as transportation equipment and material handling devices such as lift trucks have also been accepted. There is a feeling in some quarters that liberalization will develop it there is a need for a more profitable outlet for insurance funds. Pension and institutional funds do not generally have as severe restrictions as those imposed on insurance companies. Because of the latitude they enjoy there are many opportunities open to them for loans and as a result they may require a "richer deal." Some pension funds, and some insurance companies, require a "sweetener" or "kicker" in addition to interest. In lease financing this generally takes the form of a participation in the residual equipment at the termination of the lease.

In this connection it might be well to remember that banks do not and cannot require an equity interest or an interest in residuals. Our "kicker" or "sweetener" is the prospect of a continuing business relationship and deposit balances so that we may continue to grow. Funds operating on a tax basis, which classifies them as non-profit enterprises, tread very carefully to preserve their tax status, since such funds may not own personal property. This results in some reticence to lend against an equipment lease and points their money toward financing in which they have had more experience. It should be added at this point that other restrictions may apply such as lending for the acquisition of assets not domiciled in the United States. Insurance and institutional sources complement commercial banks in that banks today prefer loans of short or moderate term. Insurance companies and institutional lenders generally like loans to be of a million dollars or more and the term 15 years or longer.

I have here commented on the average bank and the average insurance company or pension fund. Whenever I generalize or quote "an average" I am reminded of a cartoon I saw in a technical publication some years ago. The point being driven home was the danger of using statistics or averages. In this case a six foot man was shown standing erect and drowning in a pond of six inches average depth. It just happened that the man was standing in a seven foot hole.

### Lease versus Conditional Sale

Perhaps the first step in a credit analysis is to determine whether the plan under consideration is really a lease or a conditional sale. This is a very important consideration to everyone concerned with the transaction, and is treated with indifference all too frequently. For the lessor it is important tax-wise. The lessor should be as interested in the security problems as the lender. He, however, is often lured into conditional sales deals with the lease labels through his desire to accommodate the wishes of the lessee. If the treasury department rules the agreement is a conditional sales contract, the lessor loses his abilty to take the depreciation and immediately has a serious tax problem.

For: The lessor has only interest income and return of capital and will be allowed only interest and depreciation as deductions, the return of capital (as part of rent payment) being disallowed. Since he will probably be allowed only depreciation based on a longer useful life than the term of the lease, and longer than the lessor could justify, this can impose serious tax consequences measured by the difference between his payments to the supposed lessor and the interest and depreciation deductions he may be permitted. He would also lose the benefit of accelerated depreciation methods as first owner.

If there is a default by the lessee it will be difficult to enforce the contract if a question can be developed as to which type of transaction has taken place. This we find has been overlooked more often than any other consideration. A good lease, we believe, is an excellent document to protect the lender and the lessor if the lessee gets into financial trouble. Remember when a person is in financial trouble he fights to stay alive, and at that time frequently retains a shrewd lawyer who will make the most of a weak contract or lease. It is important to all, that legal counsel will be employed. It must also be remembered that the matter of the business terms and the business risk must be decided by the lessor management and the lender, therefore, points such as enforcement of the document must be featured by such management in its policy instruction to counsel. Although I will soon advise that simple credit procedures can be used for simple credits, this should not be taken as endorsement of poor papers for any transaction. There is no value in having a written agreement unless it is a good one. The reason for an agreement is to set down terms —*that can be enforced.*

At this point it seems advisable to establish that lenders should appraise a credit for several possible developments: Growth (as probably suggested in the borrower's presentation), a decline resulting in the necessity of operating on a much smaller volume, a receivership, bankruptcy and liquidation. These latter situations seem like morbid thoughts.

I am reminded of one of the popular night club entertainers who has suggested that we *remove* the word *"maimed"* from the English language as it is *most unpleasant* to *think* about. Well — those entering into leasing agreements where receivership and bankruptcy have been passed over lightly may have plenty to think about and some sleepless nights. In lending against equipment leases we believe there is particularly good protection, in the event of receivership, in that the receiver cannot reduce the rental if he uses the equipment, and repossession can be accomplished readily and at minimum expense. In our research we have found that the title can be particularly well protected through a trustee arrangement coupled with the lease. This has many advantages and is particularly valuable when applied to items that may be moved from one location to another. I hope by these points I have cre-

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# THE MARKET . . . AND YOU

*BY WALLACE STREETE*

Industrials finally found some limp support in this week's markets but not before the selling since Jan. 5 had driven their average down around 50 points from the all-time peak. While the support wasn't overly robust it was, consequently, welcome as some sort of a respite. There had been only four up days in the first three week's trading of 1960, and one of these also was feeble.

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The strength moved in when the average had sagged to the November low where support was uncovered. But there was little in the way of jubilation over the feat since the action of the market was far from exuberant, and there still remains the possibility that the September low is to be tested. That figure is a score of points under the November low.

### Rails Lose Steam

Contributing to the gloom around was the fact that the rails, which stand to show a sharp rebound in earnings this year and which had started out the year as a favored section, ran out of steam and were inclined to lag more times than not. Their average—which has been the only one still in plus ground for the year — was on the brink of slipping below the final posting of 1959, to make it unanimous for the three major sections. Such action was hardly encouraging to rail followers.

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Fears of a new hike in the discount rate—an action that is being predicted as inevitable—were abating to get the market back in its traditional mien where it reacts more to surprises than to expected events.

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Volume continued subnormal for the most, and what bulges there were in turnover were due to high activity in the low priced shares, hence not serving very well as any indicator of things to come. There were other technical indicators that were breeding caution, notably a continued trim in the short interest that carried the total back to levels not seen since the fall of 1957.

### Bank Liquidation

There still seemed to be bank selling of securities to raise money for more profitable lending operations in the face of a tight money market; they liquidated more than $3 billion of investments in the last half of 1959 to raise funds for lending and there has been no change in the money market to warrant any new policy. Undoubtedly a bit of this was felt in the stock market.

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Against that background few of the traditional market excuses for good action such as stock splits, merger rumors, etc., were of much help. McDonnell Aircraft, hovering in the $30 bracket where stock splits aren't overly common, was able to surge ahead when the company proposed a 2-for-1 division, but it was something of an exception.

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One that is a prime split suspect is International Salt which hasn't sold under par since 1957. The capitalization is small, less than half a million shares. The last split was in 1951 and at that time the best the shares reached was 83. The recent peak was double that.

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International Salt is a bit unique in that it is the only method of participating in the fortunes of the nation's salt giants. The chief competitor—Morton Salt — is privately held. The business is one of marked stability in earnings and a growing industrial use of salt for chlorine and other chemical products. Some estimates are that sales for table use are now down to around 5% with industry and agriculture the largest customers by far. The company is a conservative dividend payer so its disbursements have been well covered by earnings.

### Decline-Resisting Issue

The professional interest in specific issues in the sagging market was directed mostly toward those that have shown resistance to the decline. One that was noteworthy in this respect is International Harvester. This is one of the slower-moving items in the blue chip lineup, some years moving over a range of only half a dozen to a dozen points. The 1959 range ran a dozen and a half points for one of the wider swings and a possible hint that the long-held apathy toward the farm equipment issues might be rounding a corner.

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The truck activities of Harvester, which have little to do with direct farm problems, have been mostly ignored in recent years. Earnings have held up well, reaching a record in the 1959 fiscal year which gave the issue a modest 10-times-earnings ratio and a yield far above the average, approaching 5%. From the recession year of 1958, Harvester has snapped back strongly and last year's results were nearly double those of the previous year. The 1960 outlook is favorable, particularly for its motor truck line which comes close to providing half of the company's sales.

### Lagging Auto Equipments

Auto equipment issues have also been shy of friends despite their recovery from the recession and banner year prospects for auto makers generally, in which parts firms are bound to participate. Borg-Warner, for instance, offers a yield of around $4\frac{1}{2}$%, thoroughly respectable against the far lower average yield. The company as it exists today is still rated as a prime supplier to the auto industry but the fact is that it is a broadly diversified company and a major producer of air conditioning and household appliances in addition to its auto parts business which provides less than a third of sales. The well-known product names it uses are York in the air conditioning field and Norge in refrigeration.

The outlook for Borg-Warner is also enhanced by the success of Studebaker and American Motors in the small car field since Borg-Warner is a principal supplier to these firms, as well as conducting business with the Big Three.

### Bank Stocks Ignore Profit Prospects

Despite the tight money situation, where high rates add to bank profits, there hasn't been much demand for bank stocks from the general public. The yields offered here are only a bit above average, running close to $3\frac{3}{4}$% in Bank of America which is the largest of them all. This institution is in position to go on from last year's record profit to even better things this year. The heavy introductory expenses of its credit card plan were all charged against 1959 earnings and it is busily automating to reduce operating costs. Bank of America is a bit unique in that it grew to be the giant of them all in this country by expanding aggressively, while its principal competitors for size are mostly ones that expanded via merger rather than by internal growth. And the sharp gains in population in the area it serves give ample room for continued growth.

*[The views expressed in this article do not necessarily at any time coincide with those of the "Chronicle." They are presented as those of the author only.]*

## In Securities Business

(Special to THE FINANCIAL CHRONICLE)

DANVILLE, Calif. — Geldermann Enterprises is engaging in a securities business from offices on Hartz Avenue. Officers are Harlan S. Geldermann, President; John Sparrowk, Vice-President, and Audrey G. Geldermann, Secretary-Treasurer.

## M. M. Block Opens

Monroe M. Block is conducting a securities business from offices at 1718 Grand Avenue, New York City.

# Connecticut Brevities

**Citizens Utilities Company** of Stamford recently acquired two additional utility companies, bringing the number of 1959 acquisitions to six. The Hidden Wells Water Company of Tucson, Arizona, the largest water company in the Tucson area, represents a new service territory for Citizens. The second company, Fernway Utility Company of Chicago, is the seventh property in the Chicago Suburban area purchased by Citizens since it began operations in Illinois in 1956. Additional acquisitions are expected to be announced in the near future.

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Stockholders of the **Black Rock Bank and Trust Company** of Bridgeport and the **National Bank and Trust Company of Fairfield County** in Stamford will meet Jan. 25-26 to vote on a proposed merger of the two firms. If approved the merger would become effective Feb. 15, 1960 and would give combined total resources of $152 million.

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**Dow Chemical Company** has announced plans to build a new plant at Ledyard for the production of styrene-butadiene latexes. The new building, to be completed late in 1960, will be an addition to Dow's Allyn Point Division which manufactures other plastics in the Dow line.

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The Post Office Department has awarded **Pitney-Bowes, Inc.**, of Stamford a $2,250,000 order for 75 automatic mail "facing and cancelling" machines. The award represents the Department's first volume order for automatic mail handling equipment since postal officials embarked on a program to install modern production methods. The electronic "facer-canceler" eliminates hand facing by taking letters of any length and facing and cancelling them automatically at speeds up to 500 per minute.

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The Pratt and Whitney Aircraft Division of **United Aircraft Corporation**, East Hartford, has announced an expanded program in development and manufacture of fuel cells for space vehicles and commercial uses. The enlarged program, undertaken in conjunction with Leesona Corporation, covers the carbox fuel cell which utilizes low-cost hydrocarbon fuels with air as an oxidizer. The carbox fuel will have application for industrial power generation, vehicle propulsion, electric welding equipment and other applications in which electrical production cost is an important factor. Late in 1959 Pratt and Whitney announced that its liquid-hydrogen-fueled rocket engine—the XLR 115—had passed its firing tests. Together with an Atlas first-stage, the XLR 115 will provide the second stage thrust for the Centaur Missile, which is designed to launch a 2,000 pound payload on deep space missions.

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**Shoreham Motor Hotel, Inc.**, of Hartford, has announced a merger with Christopher Ryder House, Inc., of Cape Cod, through an exchange of stock. Shoreham is in the process of building a motor hotel in downtown Hartford.

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**Data-Controls Systems, Inc.**, Danbury, has filed a registration statement with the SEC covering 122,500 common shares. Of this amount 75,000 shares will be offered for public sale. Of the balance, 37,500 shares are outstanding and would be offered from time to time by present stockholders, 5,000 shares may be bought by underwriters and 10,000 shares would be offered to employees through option agreements. The company is engaged primarily in the manufacture of radio telemetry components used in aircraft, missile and space exploration programs. Proceeds of the sale of stock will be used to reduce bank borrowings.

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**Plastic Wire and Cable Company** of Jewett City, plans to add about 37,000 square feet to its plant in 1960. In 1959 the firm completed a 27,700 square foot addition.

## Chi. Statisticians To Hold Meeting

CHICAGO, Ill. — The Chicago Chapter of the American Statistical Association will hold a dinner meeting and panel discussion Jan. 28 at the Highland Room of Carson Pirie Scott & Company's State Street store. Members of the Panel will be George W. Mitchell, Vice-President of the Federal Reserve Bank of Chicago; Donald C. Miller, Vice-President of Continental Illinois National Bank and Trust Company, and Ernst A. Dauer, Director of Consumer Credit Studies and Economist of Household Finance Corporation. They will discuss how tight money affects state and local government spending, small business, financial institutions, housing and the consumer.

## A. G. Becker Co. Names Officers

CHICAGO, Ill.—Joseph J. Levin, previously a Vice-President of A. G. Becker & Co. Inc., 120 South La Salle Street, members of the New York and Midwest Stock Exchanges, has been elected Executive Vice-President it was announced.

Elected Vice-Presidents were John C. Colman and Stanley A. Winter of Chicago, and John Fitch, Lewis Glucksman, Milton F. Lewis and Leveritt A. Wallace of New York.

## CORRECTION

In the *Financial Chronicle* of Jan. 14th in reporting the opening of Brown & Co.'s offices in Boston it was indicated that the firm was located at 8 Beach Street. This was in error as the correct address is 8 Beacon Street.

## Form Fox & Walters

Fox & Walters, Inc. is conducting a securities business from offices at 15 William Street, New York City.

# Kefauver Hearings and The Case for Drug Shares

*By* Merton S. Allen, *Harris, Upham & Co., 99 Park Avenue Branch New York City*

**Reply to current Kefauver investigatory charges about the drug industry by broker-analyst presents diverse facts showing how "penny wise and pound foolish" it would be "to begrudge the drug manufacturers their profits" which make "all of us the real beneficiaries." The writer also examines many of the positive aspects of the drug issues evidencing they are aggressive and deserving of a very high investment rating. He names those he presently finds typically attractive, and opines that well-informed and more enterprising investors may find opportunities should the hearings lead to selling pressure.**

Bernard Baruch has said he made his money in Wall Street, just "being a nice guy; when everybody wanted to sell, I bought, and when everybody wanted to buy, I sold."

Merton S. Allen

Thanks to Senator Estes Kefauver and his present investigation into drug prices, the public does not desire to purchase drug shares. If they own any, they want to sell. This article will deal with some of Senator Kefauver's charges. It will attempt to show that the drug companies' prices are reasonable, that they are doing a splendid job for humanity, and as investments they have much to offer.

Let us first examine briefly Senator Kefauver's implications that the drug companies are gouging the public.

### Wholesale Prices

The September 1959 issue of the Federal Reserve *Bulletin* lists the wholesale prices of some basic commodities. Using the period 1947-49 as a base of 100, drugs, pharmaceutical and cosmetic prices (which are listed as a single unit) may be compared with some other needs. (See Table I)

It is clear from this illustration that drug prices have been holding the line a great deal better than many other commodities and services. While prices have held the line, it is also true that drug companies' profit margins are about the highest of all industry.

### Profits Pay for Research

These high profits are **necessary** and **justified** because of the drug industry's need for substantial investment in research and the rapid obsolescence of its products. The drug industry's five research leaders spend better than 8.5% of their sales on research. The average U. S. manufacturer spends less than 1% of sales on research, and some of the foremost American concerns noted for research effort, like E. I. duPont, spend around 4%. The expenditures for research of all types can only come from profits.

It may be of further interest to observe at this point what the five leading research companies in the drug business pay to their stockholders in dividends, spend on research, and their research as a percent of sales. (See Table II)

From this table the reader can easily see that the drug companies certainly have at least as much regard for research as they have for their stockholders.

The pharmaceutical manufacturers' efforts in basic research are another plus factor in their favor. Basic research is defined by the National Science Foundation as research on "projects which are **not** identified with specific product or process applications, but rather have the primary objective of adding to overall scientific knowledge."

According to *Science, June* 1959, issue, the last study of American industry's efforts in basic research was made in 1953.

In 1953, approximately 20% of all the basic research papers published were provided by the drug industry. Because of the trend of drug manufacturers' expenditures on research since 1953, there is reason to believe that this industry has either maintained or increased its leadership in basic research.

### Rapid Obsolescence

As previously expressed, a facet that necessitates large profit margins in the drug industry is the relatively rapid obsolescence of pharmaceutical products plus the quick erosion of prices, which evolves as competition penetrates the market held by the originator of a given drug. An illustration of this is the case of Parke, Davis. A few years ago Parke, Davis developed a method to produce streptomycin at 25% below the market. They built a $6 million plant to manufacture this drug. Before Parke, Davis ever got into production a competitor introduced an equivalent antibiotic at less than one-third of Parke, Davis' price. Parke, Davis' $6 million plant never went into production.

### Competition

Another example is the case of penicillin prices in the 10 year period 1946-1956. In 1946, 27,415 billion units of penicillin were produced for $89,652,000, or at a rate of **$3,270** per billion units. In 1956, 478,259 billion units of penicillin were sold for $62,614,000, or at the rate of **$130** per billion units. In the Dec. 28, 1959 issue of the *Oil Paint & Drug Reporter*, penicillin was quoted at $21 to $24 per billion units.

### Recouping Costs

Under such conditions it is obvious that a developer of a drug must attempt to recoup his initial development costs as soon as feasible. His prices must take into consideration all the expenses for past as well as future ventures. Further it usually takes from two to five years to create and market a new product once it is found, and there are many failures. Each drug company seeks drugs that will fight diseases more effectively and with less side effects than those already on the market, including its own. To find these drugs requires sizable expenditures. These expenditures must come from profits. If a company's profits were halved, it would have that much less to spend on research.

### Public Benefits

As a whole, the executive positions of the American drug industry are held by men of high ethical standards. They are very much concerned with their part in extending man's life span and easing his suffering. It is only in so doing that their company will progress. It would be penny wise and pound foolish to begrudge the drug manufacturers their profits as all of us are the real beneficiaries of the advancements made in the field of medicine, to which the drug companies contribute a major part.

Because of research, seven out of 10 prescriptions today are for drugs that were unknown to medicine prior to World War II. What have these new drugs helped bring about? A Metropolitan Life Insurance Co. study indicates that our life expectancy from birth has increased from 39.4 years, if you were born in 1850, to better than 69.3 years if you were born after 1957. In a great many cases these new drugs have actually saved hundreds, if not thousands of dollars, for individuals. In 1920, a case of lobar pneumonia would necessitate about five weeks of hospitalization with the resultant doctor, hospital and nursing bills totaling about $1,000 of out-of-pocket money plus a loss of wages. Today, because of antibiotics many such cases are usually cleared up at home in less than two weeks.

According to the National Office of Vital Statistics, deaths from influenza have declined from 9.9 to 1.7 persons per 100,000 in the period 1939-1955. Deaths from tuberculosis from 45.2 to 9.5. Deaths from appendicitis from 9.9 to 1.4, and deaths from syphilis from 11.2 to 2.3 in the same period. Another case in point is a recent report published in the *American Journal of Psychiatry*. Because of the use of tranquilizer drugs, the mental hospital population in New York State has been falling for each of the past four years.

Up until 1955 it was steadily rising and had reached a total of 93,600 persons. At the end of March of this year the figure had dropped to 89,203. This is in spite of rising admissions, which approximated 4,000 more patients in the last year than the previous year. Further, present electro shock treatment reduced the patients' load to 1,000 patients from 4,000 and psychosurgery "has all but been abandoned." There is little question that the drug companies played a substantial part towards the favorable trends just described.

### Positive Aspects

So much for defending the drug industry against the charges of Senator Kefauver. Now, let us examine some of the more positive aspects of drug issues as aggressive investments.

### Growth Record

As a growth industry the drug companies have an enviable record. David L. Babson Co., Investment Counselors, prepared a study on June 1, 1959 covering the annual growth rates of 26 important industries for the 10 year period 1948-1958, plus the last five year period 1953-1958. It may be seen that the drug industry placed **third** in the 10 year period covered and **first** in growth in the five year period. (See Table IV).

### Recession Resistance

To the outstanding growth record the pharmaceutical industry established can be added their excellent recessionary resistance characteristics. The Table below illustrates the trend of the 20 largest exclusively pharmaceutical concerns' net earnings for the past five years versus the earnings of the 30 stocks in the Dow-Jones Industrial averages: (See Table V).

One can easily see that in each year of the past five years, the drug companies scored an increase in earnings over the prior period. In 1958, the year that the recession showed its effect on corporate earnings, the Dow-Jones Industrials evidenced a drop in earnings of about 22%. In the same period the 20 drug firms' earnings advanced 1.4%. These results would have been far better if it were not for Eli Lilly, Allied Laboratories and Schering, whose earnings dropped fairly sharply because of unique circumstances unrelated to the general trend of their affairs. Eli Lilly and Allied Laboratories suffered a 10% reduction in earnings because of the drop in Salk Vaccine sales and prices. Lilly further absorbed the total loss of a substantial batch of vaccine which became outdated. (Both firms were later prosecuted unsuccessfully by the

Continued on page 16

**TABLE I** (From Federal Reserve **Bulletin** of Sept., 1959)

| | | | |
|---|---|---|---|
| 94.4 | **Drugs, Pharmaceuticals and Cosmetics** | 122.8 | Household furniture |
| 99.3 | Apparel | 134.8 | Cigarettes |
| 100.8 | Electric Power | 135.0 | Flat glass |
| 104.1 | Gas Fuels | 139.0 | Motor vehicles |
| 105.5 | Miscellaneous | 140.0 | Rent |
| 117.8 | Bakery products | 141.8 | Paper |
| 121.0 | Lumber | 152.8 | Tires and tubes |
| 122.7 | Industrial chemicals | 171.8 | Iron and steel |

**TABLE II**

| | 1958 Research Expenditures (In Millions) | 1958 Dividends Paid (In Millions) | 1958 Research as % of Sales |
|---|---|---|---|
| Merck | 17.4 | 15.8* | 8.9% |
| Eli Lilly | 15.7 | 15.9* | 8.7 |
| Upjohn | 13.0 | 9.6 | 8.7 |
| Pfizer | 11.0 | 12.2* | 8.5 |
| Smith, Kline & French | 10.8 | 12.5* | 8.4 |

*Included are dividends paid to preferred stockholders.

**TABLE III**

**Basic Research Expenditures & Manpower by Leading Industries**

| Number of Companies | Industry | 1953 Expenditures on Basic Research | Basic Researchers per 1,000 employees |
|---|---|---|---|
| 26 largest | Pharmaceutical | $11,000,000 | 4.5 |
| 115 largest | Petroleum | 10,000,000 | * |
| 109 largest | Chemical | 18,000,000 | 1.27 |
| 186 largest | Electrical Equip. | 18,000,000 | .43 |

*Not reported.

**TABLE IV**

**Five-and-Ten Years Rate of Growth of Major Industries***

Average Annual Rate of Growth

| | Ethic. Dr. | Air Transp. | Plastics | Life Ins. | Electronics | El. Power | Nat. Gas |
|---|---|---|---|---|---|---|---|
| 1953-1958 | +18% | +13% | +11% | +11% | +10% | +8% | +6% |
| 1948-1958 | +12% | +16% | +12% | +11% | +21% | +8% | +8% |

| | FlatGlass | Chemical | Wd. Pulp | Petroleum | Aluminum | Cement | Gypsum |
|---|---|---|---|---|---|---|---|
| 1953-1958 | +6% | +5% | +4% | +4% | +4% | +3% | +3% |
| 1948-1958 | +5% | +6% | +5% | +4% | +9% | +4% | +4% |

| | Paper | Ind. Mach. | Instrumts. | Cigarettes | El. Appar. | All Ind. | Rubber |
|---|---|---|---|---|---|---|---|
| 1953-1958 | +3% | +2% | +1% | -1% | 0% | 0% | 0% |
| 1948-1958 | +3% | +3% | +5% | +2% | +6% | +3% | +3% |

| | Copper | Text. Fibre | Lumber | Railroad | Steel | Automobile |
|---|---|---|---|---|---|---|
| 1953-1958 | —1% | —2% | —2% | —2% | —6% | —8% |
| 1948-1958 | +1% | —1% | —1% | —1% | 0% | +2% |

*In compiling the statistics, David L. Babson Co. used either physical units of production, or consumption, or dollar sales where available.

# Kefauver Hearings and The Case for Drug Shares

*Continued from page 15*

government along with three others for fixing polio vaccine prices.) Schering, important in hormones, experienced a steep drop in steroid prices because of competition. (Schering is one of several concerns presently accused by Kefauver of unfair profits in hormones.) Fifteen of the 20 drug houses' earnings were higher in 1958 over 1957; one company's earnings were unchanged, and one was a shade lower. Thus, the drug issues offer the investor an excellent defensive anchor in time of economic stress while providing excellent promise of growth under ordinary circumstances. Recessions generally have little effect on pharmaceutical earnings because in times of economic stress, the individual can and will reduce expenditures on hard goods, luxuries, clothing, rent and even food. On the other hand, a prescription to be filled in times of illness is a non-discretionary purchase.

**Population Factor**

There has been considerable talk lately about a population explosion. In the U. S. alone, the population is expected to increase by about 25 million people in the next five years. That is equivalent to 25 new cities the size of Boston coming into being by 1965. The greatest population gains will appear in those age groups that are under 15 and over 65. These two age groups require the most medical treatment. Thus, it seems inevitable that the drug industry will be an important beneficiary of our projected population explosion.

**Peaceful Co-existence**

The drug industry seems in an especially unique position to benefit from a shift into an era of peaceful co-existence. The drug companies have been aggressively establishing themselves in Europe, the Mid East, the Far East, Africa, South America and elsewhere by building plants, establishing working agreements with foreign companies and/or setting up distributorships. Typical of what some of our drug companies are doing abroad may be illustrated by reviewing what some of the drug houses reported in their 1958 annual reports:

**Pfizer** acquired a controlling interest in Damex Co. with largest pharmaceutical sales in India, Pakistan and Ceylon. Pfizer acquired Kemball, Bishop & Co. Ltd. with chemical plants and distribution in Canada and Great Britain. Subsidiary pharmaceutical plants began production in Mexico, Italy and Turkey.

**Merck & Co.** A major plant was opened in Brazil; plants were expanded in Colombia, Argentine, England, the Netherlands and several countries of the Far East. The Indian subsidiary is expected to be one of the largest privately owned chemical pharmaceutical operations in that country.

**Parke, Davis.** Expansion is taking place in Brazil, Colombia, India, South Africa, Belgium and Italy. In France, a corporation was formed for sales throughout the French Union and products will be manufactured in Germany for the first time.

**Upjohn.** Expanded in Canada, Australia and Mexico. Formed a company in Panama and Colombia; joined with Boots Pure Drug in Britain to form a subsidiary and formed another in partnership with S.I.F.A. in France.

**Warner Lambert**—New facilities nearing completion in France and Australia. Plans for major physical additions were made in Brazil, Italy, Mexico, Pakistan and Spain.

**Foreign Economic Growth**

The pharmaceutical companies will also benefit because the rate of population and economic growth abroad will probably exceed that which we will experience domestically, over the near term and interim future. The average annual increases in industrial production abroad have outpaced our own by a considerable margin. Table VI illustrates the five-year period.

The European Common Market was formed in the beginning of 1959. The countries that are not participating in this development are expected to form their own economic unions in competition. These developments would seem to provide the basis for projecting an extension of the economic growth trends established abroad.

**Foreign Medical Needs**

One of the prime needs of the underprivileged areas of the world is medicinal products. To quote from the annual report of Vick Chemical for the year ending June 30, 1959—"In 1950 the World Medical Association made a survey of the status of 11 important therapeutic agents—most of them comparatively new—in 24 countries. Only in one were they all produced locally. In all others anywhere from 1 to 11 had to be imported, and in only five countries were the supplies adequate. While there has been some improvement in the past nine years, there are still areas in which many effective agents are unavailable in adequate amounts. Not only is there a lack of the newer therapeutic agents such as antibiotics, vitamins, etc., but there is a lack of the ordinary drugs, such as analgesics, antipyretics and other reputable proprietary agents. Large areas lack not only the pharmaceuticals but the facilities for producing them. The field for expansion and sales of therapeutic agents is boundless."

**Capitalizing on Foreign Research**

Our domestic companies are also taking steps to capitalize on the creative research talents abroad. Bristol Myers recently introduced Syncillin, the first synthetic penicillin which was developed in conjunction with the Beecham group of England. Eli Lilly commenced research in the field of steroid hormones in conjuction with Syntex of Mexico. Cytoxan, a drug for the treatment of certain types of cancer was orginated in Germany and introduced in the U. S. by Mead Johnson. Fulvacin, a drug for the treatment of various forms of fungus diseases was developed in England by Glaxo Laboratories and introduced in the U. S. by Schering and Johnson & Johnson. Thus our drug companies rather than being vulnerable to foreign competition as are many of our domestic industries, have taken steps to benefit from developments beyond our borders.

**Low Labor Costs**

The higher the cost of labor is in a given industry the more vulnerable that industry is to the cheaper labor factor employed by foreign competitors. Our drug industry is thus relatively less exposed than many of our other industries. (See Table VII)

While there are many classes of workers who receive less than the Drug and Medicinal workers, they are usually of a lesser skilled category or located in Southern areas of the country.

**Investment Status**

That the drug companies are deserving of a very high investment rating, there can be little dispute.

The Capital Gains Research Bureau printed a report on Nov. 20, 1959 giving a summary of every stock held by America's 71 largest mutual funds. There were 46 issues out of the 1,273 in which 71 mutual funds invested over $50 million. Of the 46, three —Merck, Pfizer and Parke-Davis —were drug issues.

**High Profits**

According to a study of the 500 largest U. S. industrial corporations published by *Fortune* in its issue of July 1959, the average return on sales for the 500 was 4.9% (The average net income as a percent of sales for the 20 largest drug companies in 1958 was 11.6%.) On *Fortune's* list of the ten companies showing the highest rate of return on sales, a few are pharmaceutical houses: Smith, Kline & French, Schering and Parke-Davis. The average return on invested capital in 1958 was 9.1% for the 500 companies in the *Fortune* study. (At the beginning of 1958 the average return for the 20 largest drug houses was 22.4%.) The first two companies on *Fortune's* list of the 10 with the highest return on invested capital are drug manufacturers: American Home Products and Smith, Kline & French; the third and fourth companies Gillette and Revlon are very closely associated with the pharmaceutical field. There were 33 newcomers to *Fortune's* "500" and two of these, Upjohn and Miles Laboratories, are drug concerns. There were 33 companies displaced from the list, none of which were drug houses.

**Dividends**

Generally speaking, the managements of the drug companies are of an extremely high calibre. Their dividend record is quite enviable. Twelve of the 15 largest pharmaceutical companies (according to total assets), have been paying dividends uninterruptedly since prior to 1929. (Schering only became publicly held in 1952.) Three have been paying dividends uninterruptedly since the 1800s.

**Retained Earnings**

The consistent and sizable retained earnings of the drug companies has given rise to the strong growth pattern. In 1958 the 20 largest drug companies had an average dividend payout of 50% of earnings. Because so few new drug shares are issued to raise money for capital purposes, together with persistent institutional demand for these shares, there may develop, over a period of time, a scarcity of drug companies' shares.

**New Horizons Yet to Be Developed**

In contrast to all the developments that have taken place in the pharmaceutical field, the horizon for new discoveries and developments is vast. While great progress has been made in treating many forms of illness, there is still a long way to go. So far the three most common causes of death are concerned — cancer, heart disease and stroke—much has yet to be developed in the way of drugs. There is also considerable room for progress in treating such illnesses as arthritis, rheumatism, diabetes, dysmenorrhea, allergies, gastrointestinal disorders, mental and nervous disorders, pneumonia, tuberculosis, skin diseases, and even the common cold. Much work has to be done toward treating results of exposure to radioactivity. There are also great opportunities in the field of cosmetic pharmacology, such as drugs for the treatment of baldness. The drug houses are recognizing the opportunities present in other fields as well, such as intermediate chemicals, feed additives, agricultural items and veterinary medicines. It is interesting to note that while tremendous advances have been made in extending the human life span from birth, as described previously, very little has been done by medical science to extend man's life span once he is past sixty. According to studies by the Metropolitan Life Insurance Co., a sixty year old individual had a life expectancy of 16.3 years in 1850. In 1950, a sixty year old person could only look forward to living 17.3 years, a life span gain of only about one year in the last 100 years. The pharmaceutical houses are presently devoting a great deal of effort to the field of geriatrics. New developments in this area can be expected.

**Shares Depressed**

Because of the enormous publicity attending the Kefauver hearings and because of the charges made against the drug houses, many holders of drug issues have been selling their holdings. The selling pressure has in many instances either retarded drug shares or caused them to retreat. The hearings apparently will continue for several months. During this period various segments of the drug industry, i.e., antibiotic producers, tranquilizer manufacturers, vitamin people, etc. will be called upon to testify. Should this lead to selling of specific issues, it may provide the well-informed and the more aggressive investor with some attractive opportunities.

**Recommends Specific Issues**

The following companies are considered attractive around their current prices. (See Table VIII)

Some of the aforementioned companies may have occasion to appear before the Senate Committee. Should this precipitate any further selling of individual issues, it would seem to make those shares that much more attractive investments.

**TABLE V**

**Dow-Jones Industrials—Versus—Drugs (in millions)**

| | 1958 | 1957 | 1956 | 1955 | 1954 |
|---|---|---|---|---|---|
| 30 Dow-Jones | 27.90 | 36.08 | 33.34 | 35.38 | 28.40 |
| 20 Drugs | 288.5 | 284.4 | 237.4 | 184.2 | 140.8 |

**TABLE VI**

**Annual Average Industrial Production Increases 1953-1958**

| | | | | | |
|---|---|---|---|---|---|
| Japan | 11% | Mexico | 8% | Denmark | 4% |
| France | 9% | Italy | 7% | Canada | 3% |
| West Germany | 9% | India | 6% | Great Britain | 3% |
| China | 8% | Netherlands | 5% | United States | *0% |

*The 1958 recession in the U. S. was sharper than elsewhere and wiped out a 2% general advance.

**TABLE VII**

**From Statistical Abstract of the U. S. 1959**

| Industry | Aver. Weekly Earnings | Industry | Aver. Weekly Earnings |
|---|---|---|---|
| Petroleum Refining | 114.9 | Machinery | 94.3 |
| Building Construction | 110.7 | Rubber Products | 92.6 |
| Class I Railroads | 101.5 | Paper & Allied Products | 88.8 |
| Primary Metal | 101.0 | **Drugs and Medicines** | 85.8 |
| Transportation Equip. | 100.7 | Telephone | 78.7 |
| Gas & Elec. Utilities | 100.4 | Tobacco Manufacturing | 62.6 |
| Printing & Publishing | 98.0 | Apparel & Finish Textiles | 53.5 |

**Table VIII**

| | Current Price | Estimated 1959 Earnings | Price Times Earnings | Yield |
|---|---|---|---|---|
| Abbott Laboratories | $59 | $3.45 | 17.0 | 3.2% |
| American Home Products | 152 | 6.15 | 24.7 | 2.6 |
| Bristol-Myers Co. | 40 | 1.73 | 23.1 | 2.3 |
| Carter Products | 75 | 4.01 | 18.8 | 1.4 |
| Cutter Laboratories | 14 | .70 | 20.0 | 1.4 |
| Eli Lilly & Co. | 71 | 3.00 | 23.5 | 3.5 |
| Mead Johnson & Co. | 65 | 3.00 | 21.5 | 1.8 |
| Merck & Co. | 74 | 2.91 | 25.5 | 2.4 |
| Miles Laboratories | 80 | 3.80 | 21.0 | 1.9 |
| Schering | 77 | 3.19 | 24.0 | 1.8 |
| Smith Kline & French | 56 | 1.85 | 30.5 | 2.2 |
| Upjohn Company | 45 | 1.69 | 26.5 | 1.4 |
| Warner Lambert | 54 | 3.00 | 18.0 | 3.2 |



## New Dempsey Branch

SONORA, Calif. — Dempsey & Co. has opened a branch office at 225 South Washington Street under the management of Elinor Brown.

## Larry Richards Branch

SCHENECTADY, N. Y. — Larry Richards, Inc. has opened a branch office at 2308 Plum Street under the direction of E. L. Sommer.

# Variable Annuities—Retrospect and Prospect

By William C. Greenough,* *President, Teachers Insurance and Annuity Association, College Retirement Equities Fund*

**Self-analytical case study of a pioneer variable annuity fund's experience provides timely reference to check against in view of diverse variable annuity entries bound to arise during the 1960's. Retrospective and prospective observations made: (1) warn against using trend-line analysis in connection with retirement planning; (2) attributes extreme views and misconceptions regarding this form of retirement to improper definitions and failure to keep in mind the very long time intervals involved in annuities and the facts as to inflation and deflation; and (3) favors conservative middle ground investment policy of partly debt and equity issues, and retirement income balanced between fixed and variable contracts. A listing of common stock holdings as of Dec. 1 is shown.**

CREF, the College Retirement Equities Fund, has completed 7½ years of operation since its start on July 1, 1952; therefore, I suppose you would say its age for insurance purposes is nearly 8. I have been asked to give a retrospective and a prospective view of CREF and our experience with it.

W. C. Greenough

The development of variable annuities has been a thing of the 1950s. As we enter the coming decade we find that variable annuities continue to be a hotly debated subject, here and abroad, in the insurance and investment worlds, and to some extent by the general public. The Supreme Court of the United States has spoken out on this subject and variable annuities may be regulated by two different levels of government and two different types of regulations. A major life insurance company is tooling up to offer variable annuities to the general public; three small specialty companies are already engaged in selling variable annuities and other projects are in the making. Some 60 or 70 trusteed plans providing variable annuities have been introduced — covering such diverse groups as airline pilots, public utility employees ranging from Long Island Lighting Company to Tennessee Valley Authority, Boeing Airplane Company, Chemstrand, Warner-Lambert Pharmaceutical Company, and the National Association of Manufacturers. The State of Wisconsin is operating variable annuity plans available to all teachers and other public employees, and the 50th state is interested in setting up such a plan.

Thus the decade of the '60s opens out to the variable annuity a number of diverse roads and it remains to be seen whether variable annuities for the general public will really make much of a stir, whether they will become an overregulated, overexpensive, oversold, over a lot of things industry, or whether they will become a true and worthy servant of the American public, helping to solve the growing complex problem of providing suitable and sufficient retirement income for our aging population in a manner that will contribute to happiness and a worthwhile life. The multifold decisions that must be made by many different individuals call for broad vision and understanding if the highest interests of the public are to be served.

### A Retrospective View of CREF

But let us return to the field of higher education in America, in which variable annuities were initiated, and see whether in this framework they have so far fulfilled their purpose. The first question I might be asked is, "If we had it to do all over again, would we establish CREF?" The real answer has already been given by the 900 institutions of higher education — colleges, universities, independent schools, nonprofit research and scientific organizations, and educational foundations and associations that are, with their staff members, participating in TIAA and CREF. And it has been given by these 60,000 staff members — including large proportions of the academic members of the American Association of University Teachers of Insurance, the American Economic Association, American Finance Association, and the other social science groups meeting here in Washington, people especially informed and able to judge whether they individually wish to participate in CREF.

We hear over and over again from college deans, heads of departments, presidents, and others charged with obtaining academic talent, that CREF is of real assistance in recruiting and holding able people in the service of higher education. In the next ten years about 25 college teachers need to be attracted to our institutions of higher education for every 10 now employed there, in order to take care of the exploding enrollments of the colleges and universities, and the attrition among teachers from retirements, deaths and losses to other employments. It is hoped that variable annuities through CREF will continue to help the colleges attract and keep the talent to which they aspire.

In the late 1940s and early 1950s many college professors were discouraged because their earnings were lagging seriously behind the cost of living. And once they retired they were faced with the same problem of all people living on fixed incomes — the declining purchasing power of those fixed incomes during inflationary times. In industry salaries were high and increasing and profit-sharing, bonus, deferred compensation, and other kinds of plans took away some of the sting of the reduction in purchasing power of their retirement plans. It did not seem reasonable for college professors to have to carry all of the risk of inflation's effect on fixed-dollar incomes. Of course this problem was not limited to professors, but it was more severe for them than for many people since their salaries are not high.

The advantage of hindsight of even so short a period as 7½ years, indicates that something like CREF was greatly needed by the colleges and their staff members. It has played its part in helping to make the profession of higher education more attractive by giving reasonable promise of real security in retirement, by basing retirement savings on a broader diversification of assets, and by providing the college teacher with his first major opportunity to participate in the productivity of the American economy.

### Structure of CREF

In this paper I will make only brief reference to technical aspects or to the differences between TIAA and CREF and more conventional operations.

A variable annuity is a series of regular payments usually but not necessarily involving life contingencies, the yearly value of each of the series of payments being equal to a pro rata share of a fund normally invested in common stocks and other equities. While not a part of the definition of variable annuities, an essential part of the objective of providing retirement security is the mechanism for purchasing variable annuities through regular premium payments over many, many months and years of the working lifetime, thus distributing the purchase of equity investments over a period of time.

CREF is a companion organization established by TIAA, the originator of variable annuities, to issue these annuities for staff members of colleges, universities, and other nonprofit institutions. Some salient points:

(1) CREF is corporately and financially separate from TIAA with a separate board of trustees, separate investments, and separate accounting for funds. But it is a companion organization for TIAA, both being integral parts of the retirement program needed by educators.

(2) CREF fell heir to a ready-made TIAA clientele composed of college staff members, scientists and other educators. Both companies strictly limit eligibility for their contract to this group—nonprofit educational organizations, colleges, universities, independent schools, research organizations, and foundations and educational associations.

(3) The CREF participant must also be a TIAA participant, so that "balancing" of his retirement savings between variable and fixed-dollar annuities is assured.

(4) In the TIAA-CREF structure there is no "selling" in the usual sense. Both companies use the same small Advisory staff—a half dozen full-time, salaried officers who handle the writing of articles, bulletins, books, letters and other contracts made with the 900 educational institutions with TIAA-CREF retirement plans, as well as handling the life insurance, major medical insurance and disability income programs.

(5) Both the TIAA and CREF annuities are fully vested in the individual and transferable so that he always owns them, but only as an annuity or death benefit. There are no cash or loan values.

(6) Practically all TIAA and CREF annuity contracts originate as part of college retirement systems. This means that the decisions to make CREF available as part of college retirement plans came about by trustee action, study by college officers, by faculty committees, and by individual staff members, a thorough process of screening.

### Current Statistics on CREF

CREF and TIAA report fully to all policyholders once a year, both as to figures on the participants' own annuities, and, in the annual report, as to all of the investments in CREF, the current unit values, and other material. Here are some of the significant data as of Dec. 1, 1959:

(1) A total of 57,000 educators are now participating in CREF. This represents 70% of the TIAA premium paying annuity owners.

(2) Total assets of CREF now equal $120,000,000.

(3) The accumulation unit value representing the price of new units for the person paying premiums, or the value of the death benefit at any time, is now $26.28, or more than 2½ times the starting value in 1952. Month by month values are given in the appendices.

(4) The annuity unit value has changed as follows:

| Annuity Year May through April | Annuity Unit Value |
|---|---|
| Initial Value | $10.00 |
| 1953-54 | 9.46 |
| 1954-55 | 10.74 |
| 1955-56 | 14.11 |
| 1956-57 | 18.51 |
| 1957-58 | 16.88 |
| 1958-59 | 16.71 |
| 1959-60 | 22.03 |

The accompanying graph gives an illustration of a combined TIAA-CREF income over a 7½ year period. The graph shows the monthly annuity income that would have resulted from a single premium paid TIAA-CREF Immediate Annuities on July 1, 1952 by a man then aged 65. The premium paid to TIAA was assumed to be large enough to purchase an annuity of $100 a month, with the same premium amount paid to CREF. It should be emphasized that CREF experience has been generally very favorable and that larger downward variations than have yet occurred in CREF income can be expected within the longer-range trends.

(5) Expense loadings in CREF will once again be reduced on Jan. 1, 1960, this time to 2.1% of each premium as the total operating expense charge, plus 1/60th of 1% per month total investment expense charge. These are the only expenses until retirement, at which time a charge equal to 1% of annuity payments is made to take care of all operating expenses during the payment of annuities.

(6) CREF funds are invested in 14 different industries and 66 carefully chosen companies within those industries. The portfolio is given in the appendices.

(7) Practically all of TIAA-CREF's 900 cooperating institutions with retirement plans make CREF participation available to their staff members. 90% of the staff members who choose to participate in CREF do so for the full 50% of premiums allowed. A few institutions have made participation in CREF compulsory for all participants in their retirement plan.

(8) Although the participant in CREF can choose whether to put ¼, ⅓, or ½ of his total premium into CREF, the rest going to TIAA

*Continued on page 46*

# NEWS ABOUT BANKS AND BANKERS

*Consolidations • New Branches • New Offices, etc. • Revised Capitalizations*

Directors of **Chemical Bank New York Trust Company, New York,** on Jan. 21 elected William S. Renchard President and Howard

**William S. Renchard H. W. McCall, Jr.**

W. McCall, Jr., First Vice-President, both effective Feb. 1.

**In making the announcement, Harold H. Helm, Chairman, said that Mr. Renchard will succeed Isaac B. Grainger who is retiring as of Jan. 31. Mr. Grainger, who continues on the Board, has been with the bank since 1943, as President since January, 1956. He will continue to serve the bank in an advisory capacity.**

**Continuing in their respective positions are Mr. Helm as Chairman and Chief Executive; Adrian M. Massie, Chairman of the Trust Committee, and Gilbert H. Perkins and Hulbert S. Aldrich, Vice-Chairmen.**

**Both Messrs. Renchard and McCall have been serving the bank as Executive Vice-Presidents since 1955, in charge of the metropolitan and national divisions, respectively. Mr. Renchard has been with the bank since 1930. Mr. McCall began his career with the bank in 1928.**

**Hugh H. Jones, Jr. also was appointed an Assistant Secretary on Jan. 22. Mr. Jones joined the bank in 1954 and is a member of its national division at 165 Broadway.**

* * *

**COLONIAL TRUST CO., NEW YORK**

| | Dec. 31,'59 | June 10,'59 |
|---|---|---|
| Total resources | $85,628,024 | $79,451,404 |
| Deposits | 75,201,027 | 70,158,232 |
| Cash and due from banks | 20,300,198 | 16,702,351 |
| U. S. Govt. security holdings | 11,193,672 | 13,448,881 |
| Loans & discounts | 44,041,982 | 39,938,508 |
| Undivided profits | 668,213 | 586,869 |

* * *

**Chase Manhattan Bank, New York,** announced on Jan. 19, the plans of John J. McCloy, Chairman, to retire at the end of the year. Mr. McCloy became Chairman of the **Chase National Bank** in 1953 and of the merged **Chase Manhattan** in 1955.

* * *

**The First National City Bank of New York, New York,** by a stock dividend, increased its common capital stock from $240,000,000 to $244,800,000. Effective Jan. 14. (Number of shares outstanding 12,240,000 par value $20.)

* * *

The appointment of Frederick Gidge as Vice-President of **Manufacturers Trust Company, New York,** is announced by Horace C. Flanigan, Chairman of the Board. Mr. Gidge in 1925 joined the **Chatham Phoenix National Bank and Trust Company, New York,** which merged with **Manufacturers Trust Company** in 1932.

Announcement was also made of the appointment of Arthur Langsdorf and Matthew McKenney as Assistant Vice-Presidents and Arthur Celio as Assistant Secretary.

Arthur C. Ebinger was also appointed a member of the Flatbush Advisory Board.

Mr. Ebinger was appointed to his present position in 1945. He is a Trustee of the **Lincoln Savings Bank.**

* * *

Mr. J. Delafield DuBois, has been elected a Senior Vice-President of **Morgan Guaranty Trust Co., of New York.** Mr. DuBois is head of the international banking division.

* * *

Approval given to the **Hanover Bank, New York,** to increase its capital stock from $40,000,000 consisting of 4,000,000 shares of the par value of $10 each, to $45,000,000 consisting of 4,500,000 shares of the same par value. Effective Jan. 22.

* * *

Ira Hirschmann, recently resigned as Chairman of **Gotham Bank, New York,** has been elected to the Board of **Colonial Trust Co.** Also elected a Director of **Colonial Trust** was F. R. Willis.

* * *

C. W. Korell, President of **Underwriters Trust Co., N. Y.,** announced the election of the following three new officers, at a meeting of the Board of Directors. Howard E. Pusch, Assistant Treasurer, Bertha A. Hlavacek, Assistant Secretary, Nicholas F. Piombino, Auditor.

* * *

**Empire Trust Co., New York,** was given approval to increase its capital stock from $5,625,000 consisting of 112,500 shares of the par value of $50 each, to $5,850,000 consisting of 117,000 shares of the same par value. Effective Jan. 22.

* * *

Approval given on Jan. 22, to **Industrial Bank of Commerce, New York,** to increase its capital stock from $2,000,000 consisting of 200,000 shares of the par value of $10 each, to $2,100,000 consisting of 210,000 shares of the same par value.

* * *

Leo Bertisch, was elected a Director of **Trade Bank and Trust Co., New York,** on Jan. 21.

* * *

**Federation Bank and Trust Co., New York,** on Jan. 20, announced the election of Sidney Abrams, as a Director.

* * *

George J. Gross has been elected President, and Laurence Marchini has been elected Chairman of the Executive Committee and Executive Vice-President of **The Gotham Bank, New York,** David Berg, Chairman, announced Jan. 27.

* * *

David Berg, on Jan. 22 was elected Chairman of the Board of Directors and General Counsel of **The Gotham Bank, New York.**

* * *

Four officers of **Dry Dock Savings Bank, New York,** were advanced to Assistant Vice-Presidents, it was announced on Jan. 25 by Mr. William A. Lyon, President.

These four, all branch managers, are Howard Geberth, Raymond Johnson, Robert Gaylord and Winfield Losee.

* * *

Mr. Alfred S. Mills, President of **The Bank for Savings in the City of New York** announces that the Board of Trustees has appointed Otto Mann an Assistant Comptroller of the bank.

* * *

The **Central Industrial Bank, Brooklyn, New York,** announced that Mr. James A. Farley Jr., Director and Vice-President of the bank for the last year has been named President. Jack L. Selke, has been appointed a Vice-President.

* * *

The Board of Trustees of the **Bay Ridge Savings Bank, Brooklyn, New York,** at a special meeting, elected the following: Edward R. McAuliffe, President; Sigurd J. Arnesen, First Vice-President; Nils S. Dahl, Second Vice-President; and Earl Herbst to Secretary.

* * *

**The Hamburg Savings Bank, Brooklyn, New York,** announced the election of Adam G. Muller to the Board of Trustees. Mr. Muller is presently Vice-President and Secretary.

* * *

The Comptroller of Currency of the U. S. Treasury has given tentative approval to the merger of the **Valley Stream National Bank and Trust Co., Valley Stream, Long Island, N. Y.,** and the **First National Bank of Greenpoint, New York,** according to an announcement made on Jan. 21 by Mr. George Auslander, Chairman of the Board of the Valley Stream bank. The Boards of Directors of both banks unanimously approved the merger on Jan. 12, subject to approval by stockholders and the Comptroller of Currency.

Under the terms of the merger, the Valley Stream National Bank and Trust Co. will exchange 29 shares of their stock for each share of stock of the First National Bank of Greenpoint.

* * *

**Bank of Babylon, Babylon, New York,** was given approval to increase its capital stock from $751,130 consisting of 75,113 shares of the par value of $10 each, to $948,650 consisting of 94,865 shares of the same par value. Effective Jan. 22.

* * *

A change in title has been approved by the stockholders of the **Eastern National Bank of Smithtown, L. I. to Eastern National Bank of Long Island,** as of Jan. 19.

* * *

The consolidation of the **National Ulster County Bank of Kingston, New York,** with common stock of $250,000 and **The State of New York National Bank, Kingston, New York,** with common stock of $450,000. Effective as of the close of business Dec. 31. The consolidation was effected under the charter and title of **The State of New York National Bank.**

* * *

**Bank of Utica, Utica, New York,** was given approval on Jan. 22, to reduce the par value of shares of stock from $100 each to $20 each and increasing the number of shares from 4,000 shares of the par value of $100 each to 20,000 shares of the par value of $20 each.

* * *

Approval was given on Jan. 22, to the **Manufacturers and Traders Trust Co., Buffalo, New York,** to increase its capital stock from $11,596,745 consisting of 2,319,349 shares of the par value of $5 each, to $11,828,680 consisting of 2,365,736 shares of the same par value.

* * *

By a stock dividend, the **Canal National Bank, Portland, Maine,** increased its common capital stock from $2,000,000 to $2,100,000. Effective Jan. 15. (Number of shares outstanding 210,000, par value $10.)

* * *

Sidney M. Price, President of **The First National Bank of Malden, Massachusetts,** announced its election of Albert S. Kahn, to the Board of Directors. Raymond H. Blanchard was elected Chairman of the Board and succeeds Ernest L. Chandler who remains a Director.

* * *

**The Housatonic National Bank of Stockbridge, Massachusetts,** with common stock of $75,000 merged with and into **The Berkshire Trust Co., Pittsfield, Mass.,** under the charter and title of **Berkshire Housatonic Trust Co.,** effective as of the close of business Nov. 13, 1959.

* * *

Lee S. Johnson, Kenneth E. Raine, and Austin R. Zender, were elected Directors of the **Connecticut National Bank, Bridgeport, Connecticut.**

* * *

**THE FIRST NATIONAL BANK OF PASSAIC COUNTY, PASSAIC, N. J.**

| | Dec. 31, '59 |
|---|---|
| Total resources | $247,629,044 |
| Deposits | 226,363,846 |
| Cash and due from banks | 37,692,785 |
| U. S. Govt. security holdings | 56,046,548 |
| Loans and discounts | 119,590,167 |
| Undivided profits | 3,922,817 |

* * *

Fidelity Union Trust Company The Board of Directors of **Fidelity Union Trust Company, Newark, N. J.,** announced Jan. 19 the election of Horace K. Corbin as Honorary Chairman of the Board; Roy F. Duke as Chairman of the Board, and C. Malcolm Davis as President.

* * *

The Board of Directors of **The Fidelity Union Trust Co., Newark, N. J.,** announced Jan. 21 the election of John S. Bacheller and Edward Schickhaus as Senior Vice-Presidents. Also announced was the election of Lawrence T. Johnson as Vice-President.

The bank also announced the election of Samuel S. Sternbach as Second Vice-President. Named Assistant Treasurers were: William A. Bayreuther, Jr., William K. Hutchison, and Herbert E. Pappky.

Four new officers named are: Edmund M. Oehlers, Assistant Treasurer; George W. Wainwright, Jr., Assistant Treasurer; Ferdinand W. Krumbholz, Assistant Comptroller and Jack A. Pilkington, Assistant Comptroller.

* * *

John C. Barbour, President of **New Jersey Bank and Trust Co., New Jersey,** has been elected Chairman of the Board and Chief Executive Officer. He succeeded C. Kenneth Fuller, who retired. Cowles Andrus, Senior Vice-President, was elected President and John F. Hammond was named to fill newly created post of Vice-Chairman of the Board. He was a Senior Vice-President. Norman Brassler and Edward H. Roden, Vice-Presidents, were elected Directors.

* * *

Richard K. Mellon, Chairman of the Board of Directors of **Mellon National Bank & Trust Co., Pittsburgh, Pa.,** announced that three new Directors were elected at the annual meeting of shareholders Jan. 26. They are: Paul Mellon, Mark W. Cresap, Jr., and Fred C. Foy. Also an increase in capitalization and number of shares to permit the distribution of a 2% stock dividend was approved. If it is approved by the Comptroller of the Currency, the Board of Directors will declare the dividend at its meeting on Feb. 8.

* * *

The stockholders of the **Fidelity-Philadelphia Trust Co., Philadelphia, Pennsylvania,** elected Louis Stein, a Director at their annual meeting. Mr. Stein is also a Director of the **National State Bank of Newark, New Jersey.**

* * *

Hubert J. Horan, Jr., Chairman of the Board of Directors of **Broad Street Trust Co., Philadelphia, Pa.,** announced that shareholders have approved the increase in the authorized capital from $3,432,000 to $3,603,600, in order to provide a 5% stock dividend of 17,160 shares to be distributed on March 15, in addition to the regular quarterly cash dividend of 55c per share, payable on the same date.

The following new Directors were elected: John P. Crisconi, Lester Kardon and Morton Sand.

* * *

**Farmers and Mechanics-Citizens National Bank of Frederick, Maryland,** with common stock of $750,000 consolidated with **The First National Bank of Mount Airy, Maryland,** with common stock of $175,000. Effective as of the close of business Dec. 31. The consolidation was effected under the charter and title of Farmers and Mechanics-Citizens National Bank of Frederick. (Number of shares outstanding 137,500, par value $10.)

* * *

The merger of **First National Bank of Ashland, Virginia,** with common stock of $131,250 with and into First and Merchants National Bank of Richmond, Virginia, with common stock of $6,000,000. Effective as of the close of business Dec. 31. Under the charter and title of **First and Merchants National Bank of Richmond.** (Number of shares outstanding 309,625, par value $20.)

* * *

John S. Fangboner, President of **The National City Bank of Cleveland, Ohio,** announced the appointments of several new officers.

Named Vice-Presidents were Thomas E. Clarke in the Trust Department, Gordon E. Heffern in the Bond Department and Don S. Helwick in the Mortgage Loan Division.

George K. Karch, Vice-President and executive committee member was elected Executive Vice-President, a new post, H. E. Stark, was elected Vice-President and counsel, J. H. Butala, Jr., S. W. Clements and William Serne, Jr., were named Vice-Presidents.

At the Annual Meeting held on Jan. 20, the shareholders approved a 10% stock dividend and elected a new director.

The stock dividend consists of 121,000 shares and is payable on Feb. 17 in the ratio of one share for each 10 shares held to shareholders of record on Jan. 25.

Charles M. Spahr, was elected a National City Director. He replaces Lynne L. White, Chairman, who retired from the Board.

* * *

By the sale of new stock, the **Merchants National Bank and Trust Co., of Dayton, Ohio,** increased its common capital stock from $750,000 to $1,125,000. Effective Dec. 31. (Number of shares outstanding 90,000, par value $12.50.)

* * *

**City National Bank and Trust Co., of Chicago, Ill.,** by a stock dividend, increased its common capital stock from $10,000,000 to $11,250,000. Effective Jan. 12. (Number of shares outstanding 450,000, par value $25.)

* * *

Leland I. Doan, and Joseph L. Hudson Jr., were elected Directors of the **National Bank of Detroit, Michigan.**

* * *

**Michigan National Bank, Lansing, Michigan,** increased its common capital stock from $10,000,000 to $12,000,000 by a stock dividend. Effective Jan. 15. (Number of shares outstanding 1,200,000, par value $10.)

* * *

**The Romulus State Bank, Romulus, Michigan,** with common stock of $200,000 merged with and into **Manufacturers National Bank of**

*Continued on page 48*

# British Bank Rate Increase And the Dollar's Outlook

*By* Paul Einzig

**Noted British economist summarizes background considerations leading to recent rise in Bank of England's rediscount rate. He points out that sterling's strength is no longer boosted by vague dollar scares since, one, the Republican Party's re-election chances have improved and, with it, lessened fears of dollar devaluation; and, two, Pinay's removal and change for the worse in the Algerian situation makes unlikely the repatriation of billions of dollars of French funds here. The writer also notes that this step is aimed at cost inflation and consequent deterioration in the balance of payments, and at the Stock Exchange boom.**

*LONDON, England.*—The decision to raise the Bank of England's official rediscount rate to 5% took the markets completely by surprise. As week after week had passed without an increase most people came to assume that there would be none this time. Yet, as is usually the case, once the deed was done most people — except those who stood to suffer financial losses as a result of the change—considered it a necessary and even inevitable move. A very impressive array of arguments could be mustered up in explanation of the decision. Not least important among them is that sterling could no longer hope to derive support from fears about the prospects of the dollar.

To a large degree the strengthening of sterling during a great part of 1959 had been the result of vague anticipations of a revival of dollar scares before and possibly after the Presidential election in the United States. But as far as it is possible to judge from this side of the Atlantic the prospects of a Republican victory have improved considerably. This means that there is much less likelihood of a dollar devaluation which a Democratic Administration might conceivably favor or into which it might conceivably be forced by the distrust that its New Deal policies would inspire. Since it is now considered here safe to assume that a Republican Administration would not devalue, one of the main causes of dollar fears has subsided.

### Says French Funds Will Stay in U. S. A.

An equally important cause for a strengthening of confidence in the dollar lies in the troubled domestic political outlook in France. Until recently it was widely expected that a settlement of the Algerian troubles would lead to wholesale repatriations of French capital from the United States, leading to very heavy losses of gold running into billions of dollars. In this respect the situation and prospects have undergone a considerable change during the last week or two. M. Pinay's dismissal from the Finance Ministry caused dismay among the investing classes in France, for he was regarded as their main safeguard against General de Gaulle's inclination to move toward the Left in his economic and financial policies. Now that M. Pinay is no longer there, French investors will think twice before deciding to bring their money back. They might have put up with increased taxation and more severe enforcement of taxes so long as the man they had trusted was at the Finance Ministry. But now they may deem it safe to await developments.

Moreover, the outlook of a settlement in Algeria has also changed for the worse, as a result of the open manifestation of opposition to General de Gaulle's policy by the French Army. The chances of finding a solution acceptable both to the Moslem nationalists and to the French Generals and their Right-wing supporters in France have declined considerably during the last few days. It now seems therefore that the choice rests between continuing the highly costly war in Algeria and coming to terms with the rebels at the risk of a major upheaval in France. For this reason alone their is no likelihood of a wave of repatriations of the billions of French refugee funds from the United States.

As a result the prospects of the dollar have greatly improved. This means that sterling will need reinforcement, in order to be able to hold its own through its inherent strength instead of through pessimism about the dollar. Hence the need for a Bank rate increase. During recent months Britain was losing gold in addition to the amounts used for debt repayment. And the absence of a firmer tone in sterling after the turn of the year—when the seasonal factor is usually in its favor—made it appear necessary to check the drain by means of a higher Bank rate.

The main object of raising the Bank rate is not so much to attract funds or prevent their withdrawals as to prevent a revival of cost inflation and a deterioration of the balance of payments. The British economy is now almost fully employed, and the actual or prospective reductions of working hours are liable to revive the scarcity of labor which had to be dealt with in 1957 in order to save the pound. The increase in the Bank rate to 7% in 1957 made the trade unions realize that the British Government is fully prepared to turn tough if sterling is in danger. That lesson seems to have been forgotten, however, judging by the stepping up of wage demands and demands for shorter hours. During recent months the view was gaining ground that never again would the Government resort to deflationary measures which, while checking inflation, would cause a setback in production. The time has arrived for the Government to prove that it is fully prepared if necessary to repeat the experience of 1957.

The trade unions, like the restored Bourbons, seem to have learned nothing and forgotten nothing. Once more grossly excessive wage demands are pressed vigorously, in complete disregard of the overriding interests of the national economy. If the Bank rate increase would bring them to their senses and make them realize that the Government will not stand for a revival of the inflationary wage-price spiral, the losses inflicted on the community by the Bank rate increase would not have been in vain.

But the Bank rate is not directed solely against the trade unions. It is aimed also against the Stock Exchange boom which is considered excessive in official circles. For one thing, so long as fortunes are made on the Stock Exchange with the greatest ease it is difficult even for the trade unions to restrain pressure by their members. The setback brought about by the Bank rate change may possibly be salutary from that point of view.

# Dean Witter Opens New Branch

Dean Witter (left), Senior Partner of Dean Witter congratulates Resident Manager Gordon H. Oosting on the opening of the new Witter office in San Mateo, Calif., Friday, Jan. 15. Looking on is General Mark W. Clark (right), famed U. S. military leader in World War II and in Korea. General Clark, who is the father-in-law of Mr. Oosting, was in California to deliver a defense mobilization talk in Bakersfield on Monday, Jan. 18. Dean Witter & Co. is the largest investment banking and brokerage firm in the West.

# Coast Exchange Names Officials

Both Divisions of the Pacific Coast Stock Exchange elected a Chairman of the Board of Governors at Annual Meetings held in Los Angeles and San Francisco.

William H. Jones, President of the William H. Jones & Co., was re-elected Chairman of the Board of Governors of the Los Angeles Division.

Warren H. Berl, Partner of Sutro & Co., was elected Chairman, Board of Governors of the San Francisco Division.

New Los Angeles Division Governors named for a three-year term were Richard W. Jones of Mitchum, Jones & Templeton; Horace E. Martin of Daniel Reeves & Co. and Chester L. Noble of Noble, Tulk & Co.

New San Francisco Division Governors named for a two-year term were William Bias of Shuman, Agnew & Co.; Jack C. Johnsen of Parrish & Maxwell and Palmer York, Jr. of York & Co.

# Texas IBA Group To Meet in Dallas

DALLAS, Texas — The Annual Meeting of the Texas Group, IBA, will start Sunday, April 10, with registration at the Sheraton-Dallas Hotel. Business meetings will be held Monday and Field Day will be Tuesday with entertainment both evenings.

Members of the Convention Committee are: John H. Rauscher, Jr., Rauscher, Pierce & Co., Inc., General Chairman; Clarence E. Sample, Mercantile National Bank, Entertainment Chairman; John Clayton, First National Bank, Registration Chairman; Dick Clark, Jr., Dallas Union Securities Company, Golf Chairman.

# Canada's Leading Authorities Evaluate Its 1960 Economy

*Continued from page 1*

would generate new interest in industrial expansion and thereby reinforce the rising trend of capital investment now underway. What is presently known of investment plans for 1960 suggests that capital outlays by the business community will increase considerably. A stepped-up rate of expansion is indicated in the commercial sector, in manufacturing and possibly in some utilities also. The level of outlays in other fields of investment will depend in large part upon the physical and financial resources which they are able to command. For example, the reduced availability of mortgage funds has already brought about a decline in the level of private housebuilding, but the recently-announced increase in the maximum rate on loans insured under the National Housing Act will facilitate the flow of money to this area. There is now clear indication that total investment, both private and public, will be up in the coming year.

Prospective growth in both exports and investment will help to sustain the current upward trend of personal incomes and contribute to further strengthening in other market sectors. The consumer market in particular gives promise of continuing buoyancy in the period ahead.

These considerations suggest that total demands upon the economy are likely to continue to increase, resulting in a further expansion of output and employment. While productive resources have become more fully utilized over the past year, there is still a considerable amount of available capacity in most industries. In addition, manpower and plant capacity are growing steadily. In these circumstances, it would appear that a production increase of considerable dimensions could take place without giving rise to excessive pressure upon productive capacities. At the same time, it is important that demands be kept within the scope of available resources. If this objective is achieved, Canadians can look forward with confidence to the continuation of sound economic growth.

## P. C. ALLEN

**President, Canadian Industries Limited**

The output of chemicals and allied products advanced in 1959, but the industry's performance was unfavorably affected during the early part of the year by lower export sales of chemicals and by a protracted strike in the synthetic rubber industry. Activity increased as the year progressed, and in view of the encouraging economic outlook for 1960 a further improvement in output is expected this year. Intense competition for the Canadian market for chemicals, from both foreign and domestic producers, is expected to continue unabated throughout 1960. As a result profit margins are likely to remain inadequate for the healthy development of the industry over the long-term.

P. C. Allen

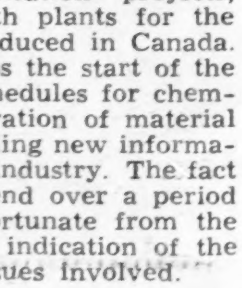
Capital outlays were cut back in many Canadian industries last year, and the chemical industry was no exception, although the reduction was a moderate one. Recent announcements suggest that the low point has been passed and that an increase in the industry's capital expenditures is to be expected this year. It appears, however, that the current investment program includes few "diversification" projects, and instead is concerned mainly with plants for the manufacture of chemicals already produced in Canada.

The coming year should also witness the start of the Tariff Board's review of the tariff schedules for chemicals and allied products. The preparation of material required for this study is already yielding new information of value to both government and industry. The fact that the Tariff Board's task will extend over a period of several years, while perhaps unfortunate from the industry's point of view, gives some indication of the complexity and importance of the issues involved.

## A. C. ASHFORTH

**President, The Toronto-Dominion Bank, Toronto, Canada**

New economic records have been established in Canada during the past year. Despite the fact that there was a decided levelling out in the total economy during the third quarter, Gross National Product rose by an estimated 7% over 1958 to reach a figure of about $34.7 billion. With total employment exceeding 6,000,000 for the first time in history and with record wage rates, labor income and consumer spending added real impetus to the resumption of economic growth in Canada. In addition government spending, by all levels, rose last year although not at the rate of increase recorded in 1958. In the capital investment sector, cross currents were at work. Total construction activity was little changed from 1958 although there was a strong comeback in expenditures on machinery and equipment. Export sales, which had been well maintained during the recession, though rather laggard during the earlier months of 1959, turned up strongly in the latter months. Canada's exports of commodities probably rose by an estimated 5% last year to exceed the $5 billion level for the first time. Here we see the significance of Canada's export trade in commodities in that they account for about one-seventh of our total Gross National Product.



A. C. Ashforth

It is against this background of strong economic resurgence in 1959 that we must assess the prospects for 1960. During the year ahead, Canadians can look forward to a rate of expansion not significantly different from that recorded last year. A gain in the order of 6% should not be considered overly optimistic. Supporting this view is the fact that consumer spending is again expected to rise appreciably, though more of it may be due to continuing strength in auto sales rather than to the purchase of household durables. In the business sector, new investment both in plant equipment and in non-residential construction is expected to rise. Thus, despite the expected fall off in residential investment, total capital investment in Canada this year will likely reach a new record of about $9 billion. In addition there should be further accumulation of business inventories during the months ahead. The build-up in inventories in Canada last year was more restrained than during the 1955-56 boom and there is every reason to believe that the business community will progressively add to inventories this year in much the same fashion as they did last year.

In the two remaining sectors of the economy, namely government spending and export incomes, diverging trends are in prospect. In the government field little change should be expected, while our export markets look better in 1960 than they have for some time past. Two-thirds of our total commodity trade is now with the United States and in view of the good prospects for their economy this year we expect that Canada and the United States will each be still better customers of the other during 1960. This indicates a higher level of commodity exports for Canada in two-thirds of our market. In Europe we believe that economic strength should also provide a bit of a lift for our commodity exports.

In retrospect the Canadian economy, being much more diversified than in the prewar years, rode through the recession quite well and has since resumed its long-term expansion in a very orderly fashion. We are in a period of relative price stability, have avoided the excesses of the boom type of recovery, and consequently are fully confident that the economy will grow during 1960 at least at its average long-term rate. In addition I believe that the prospects for growth are good for almost every broad sector of the economy.

## J. C. BYRNE

**President & Managing Director, Consolidated Discovery Yellowknife Mines Ltd**

There is every indication that 1960 will see another year of government fiscal mismanagement and a failure to face up to the fact that our paper currencies are sick. We have whittled the amount of gold behind each paper dollar close to the vanishing point. Accelerating inflation is kindled by staggering government debt, massive international borrowings and the wage price spiral resulting in an alarming flight from government bonds and fixed income securities. Currency redeemable in gold or backed by adequate gold reserves is a prime requisite of responsible government. A financial crisis is usually necessary to bring this about and such a situation is not too far off.

J. C. Byrne

Canadian gold producers must look forward to another year of badly squeezed profit margins and a continuation of government cost aid. It is very possible that the price of gold will be doubled by early 1961. The year 1960 should therefore see a return to prospecting for gold, an occupation that has been almost non-existent for the past 15 years. Some mining companies will be reactivating old gold prospects and exploring new finds this year. Funds in moderate amount will be made available through the stock exchanges for gold exploration. Engineering and geological graduates of the past 10 years will be introduced to the thrill of searching for gold after an era spent in the base metal and uranium mining industries.

The investing and speculating public will become more gold conscious in 1960. There will be an increasing interest in trading in gold and the capital shares of gold producers, both Canadian and South African. Markets in Europe, Canada and South Africa will carry on a busy trade in gold bars, bullion and coins. Negotiable gold certificates introduced a year ago by the Bank of Nova Scotia will have an increasing popular market particularly in the United States where it is illegal for citizens to hold gold. Gold certificates are issued against gold held in the vaults of the banks in Canada, where ownership of gold by Canadians is permissible and certificates issued covering same.

## A. F. CAMPO

**President, Canadian Petrofina Ltd.**

Nineteen-fifty-nine was a year of sound expansion for the Canadian economy—the gain in the physical output of all goods and services being in the order of 5%. The expansionary influence of renewed strong demand in the business and consumer sectors was moderated by monetary action, with the result that, on balance, price increases were relatively small.

A. F. Campo

The coming year should see a broadly similar growth in economic activity as commodity exports, business investment and consumer spending continue to rise. On this basis, and allowing for only a modest increase in the general price level, our Gross National Product should move into the $36½ to $37 billion range.

The petroleum industry benefited significantly from the improved economic conditions in 1959. Domestic demand for crude oil and petroleum products rose by more than 7% to a daily average of 820,000 barrels. Although product prices remained depressed, increased sales volumes and greater efficiency in operations contributed to generally higher earnings.

Canadian crude oil production, averaging about 507,000 barrels per day, recovered from the set-back suffered in the previous year, and actually exceeded the record 1957 volume. However, even this rate of production was equivalent to only about 48% of the industry's producing potential. Exploration and development activities in Western Canada continued at about the same pace as in the previous year (but substantially below the 1956-57 average).

During the year, the Royal Commission on Energy released its report on Canadian oil problems and policies. It recommended an industry-wide effort for the expansion of our crude oil outlets in the export field and in domestic refining areas presently accessible to Canadian crude.

With the 1960's, the Canadian oil and gas industry has undoubtedly entered a new phase of its development: a phase in which the export market has become the focal point.

In the past decade, vast sums were spent, mainly by U. S. interests, on finding and developing crude oil and natural gas reserves in Western Canada. (The related inflow of U. S. capital, incidentally, financed a large net movement of goods and services from the United States to Canada during this period.) As a result, a producing capacity of some 1,100,000 b/d of crude oil, together with significant volumes of natural gas, has been built up of which U. S. markets have so far absorbed only a small portion.

Our trade deficit with the United States, the similarity of our producing systems and replacement costs, as well as the supplementary character of our oil and gas supplies from the point of view of U. S. requirements, provide a strong basis for Canada's increased export objectives.

It is hoped in this connection that approval of gas export projects by regulatory authorities on both sides of the border will soon clear the way for an expanded flow of Canadian natural gas into U. S. pipeline systems. Also, that a growing portion of our shut-in crude oil production—which represents a large percentage of our producing potential, but amounts to a mere 6% of total U. S. petroleum demand—will move to readily accessible markets in the Northern United States.

The 1960's should thus see the development of a logical trading pattern in oil and gas, the foundations of which were laid in the 1950's.

## CHARLES CHARTIER

**Agent General of the Province of Quebec**

The Province of Quebec begins the decade of the 60's most auspiciously with its economy more diversified and stronger than ever before as the result of capital investments averaging $2 billion annually over the last ten years. Quebec persists also as one of the brightest spots in the really glowing growth picture for all of Canada.

The Province is Canada's largest, extending 1,200 miles northward from the St. Lawrence River to Hudson Strait and 1,000 miles eastward from James Bay to the Atlantic.

Charles Chartier

Yet at all four corners of this vast territory are evidences of great changes and improvements—new enterprises, new towns, new roads, new railways, new churches, new schools, new hospitals, that is, new industries and facilities to support a population growing at the rate of 2.2% a year.

A sign of the industrial growth of Quebec is that hardly more than a third of its 5 million inhabitants today depend on farming for a livelihood. But—due to growing markets provided by that industrialization—1959 farm income was, at a near record, $425 million in cash.

The forest industries of the Province—lumbering, pulp and paper manufacture and the wood and paper-using

*Continued on page 22*

*Continued from page 20*

fabricators—made valuable contributions to the economy last year. Timber cut on Crown Lands and private holdings, for example, amounted to 835 million cubic feet, providing employment for 150,000 workers and a gain of about 20% in these operations is foreseen for 1960.

Every bright expectation for the mining industry materialized in 1959. Production increased sharply as new projects commenced operations and the outlook for continued intensive development of the vast rich mineral lands of the Province, notably in the Far North, is encouraging indeed.

By far the most spectacular of the current ventures is Quebec Cartier Mining Co.'s $300 million project around Lac Jeannine to be reached by its own 191-mile railway from Port Cartier on an ice-free harbor in the St. Lawrence.

This undertaking is something of a twin project to Iron Ore Co. of Canada's big development nearby, making use of Sept Isles, across the bay from Cartier, as a railway-ship terminal. As plans unfold for still other mining projects in this region, some already well under way, Quebec will become—truly—one of the major producers of iron ore in the world.

In Quebec, hydro-electric figures prominently as a low-cost power source, especially important to the province's manufacturing industry, second largest in Canada and growing. Installed generating capacity in 1959 amounted to over 10 milion horsepower.

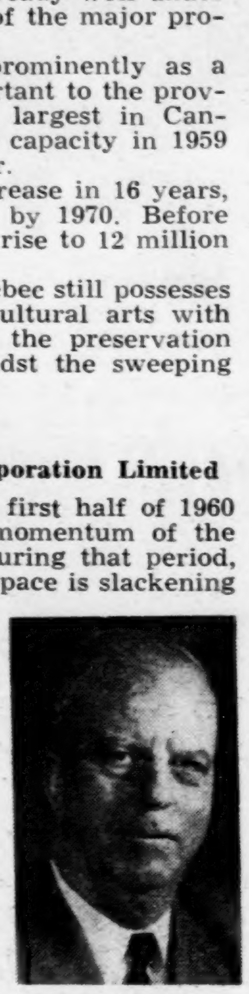
But, while this represents a 76% increase in 16 years, the plans now are to double capacity by 1970. Before the end of 1960 alone, capacity should rise to 12 million horsepower.

Despite these tremendous efforts, Quebec still possesses the will and vitality to pursue the cultural arts with enthusiasm, placing a high value on the preservation of its rich and unique traditions amidst the sweeping industrial changes.

## J. R. CROFT

**Vice-President, Traders Finance Corporation Limited**

The general prospects for at least the first half of 1960 appear to be reasonably good. The momentum of the activity of 1959 may carry forward during that period, although there are indications that the pace is slackening and that we may be returning to a more normal rate of growth. It seems that the year as a whole should be as good as 1959.



J. R. Croft

It is obvious, however, that the struggle to achieve a sound and stable dollar will hurt some sectors of the economy. Nevertheless, everyone must be in favor of winning the battle against inflation, otherwise our survival as a separate economic entity would be in jeopardy.

There are certain factors in the Canadian economy which over the longer term will definitely have a bad effect unless they can be corrected in time. Briefly, some of them are:

(a) The premium on the Canadian dollar, which adversely affects our export income and increases our imports, and therefore, our adverse balance of trade, particularly with the United States;

(b) Our slow and intermittent rate of immigration, which prevents a rapid build-up of population to use the facilities available, some of which are sufficient for a considerably greater population.

(c) Growing costs of producing, especially for export, and the competition that low cost foreign products will entail, both in the Canadian market and in Canada's markets abroad, and;

(d) The scarcity of native capital in relation to demand, and the tight credit situation with its continuing high interest rates.

Reverting to the year 1960, the availability of credit will as aforesaid remain a problem for many types of business, and it is almost certain that interest rates will continue high and may go higher, thus preventing the full materialization of the sales efforts of many industries. There will likely be no increase in the money supply, unless it can be brought about without increasing the pressure on supplies of manpower and materials and on prices.

Housing starts are likely to be down as compared with 1959, and this will have some effect on appliance sales, although there are many housing units which are still not furnished with such items. Provided employment remains high and consumer spending on its present scale, such sales to present housing units which are not adequately furnished may offset the effect of a lower number of housing starts.

It is too early to assess consumer reaction to the new compact cars and their impact upon conventional North American cars and on imports. They may have the effect of creating additional total demand, particularly if consumer buying power stays high. The leaders of the automotive industry are almost unanimous in their opinion that total sales of motor vehicles in 1960 will exceed those of any previous year.

Therefore, if monetary and fiscal policies of the government are designed to promote stable growth, and are not unduly restrictive in the consumer goods field, and assuming that public confidence can be maintained as well as nearly full employment, and that prices are restrained, 1960 should be a good year in the durable goods field generally, and in the financing of such products.

The chief concern is not currently in the ability of manufacturers of durable goods to supply suitable product, nor in the ability nor desire of the public to buy, but it lies in the fact that the margins of profit of many retailers in these fields have become entirely inadequate because of current competitive practices; a situation which is as difficult to correct as it is essential that it be corrected.

Therefore, with adequate sales, and granted the other conditions indicated above, and in view also of the fact that during the past year or two sales financing has not expanded as fast as the rate of sale of the types of goods that are financed, it seems logical that sales financing in 1960 can expand at a faster rate, and the increased volume anticipated should result in lower unit costs in general overhead which it is hoped will offset to some extent higher costs of money.

In addition to the two types of durable goods mentioned above, the sales finance companies are finding a wider market in financing the purchase of construction and commercial equipment of all kinds and of new products which are becoming more and more important. A continuation of expanding financing in this field is anticipated.

## N. R. CRUMP

**President, Canadian Pacific Railway Company**

Business conditions in Canada improved in 1959 although the improvement was not uniform in all segments of the business community. Exports of agricultural and mineral products and lumber lagged behind, adversely affecting the rail traffic. The increase in the volume of railway traffic in 1959 has been small.

N. R. Crump

Throughout the year, the business policies of Canadian Pacific have been directed towards two major objectives—first, developing its transportation services by land, sea and air to meet the changing requirements of the public and securing new markets for its services—second, redesigning its administrative structure and altering its operating procedures to achieve greater efficiency.

Notwithstanding the progress made, as the new year gets under way, the company is faced with major problems. Foremost among these is the situation arising from the statutory rates on grain and grain products. These rates are fixed at the level of 1899 and bear no relationship to today's greatly increased costs. Canadian Pacific, recognizing that the national economy would be adversely affected by an increase in export grain freight rates, has proposed to the Royal Commission on Transportation, under the Chairmanship of Mr. M. A. MacPherson, Q.C., that freight charges to western grain growers remain under the control of Parliament at their present level, and has recommended that a fair level of rates be determined, the difference between such fair level and the fixed statutory level to be recognized as a national obligation of the Treasury of Canada.

Another problem of susbtantial proportions for Canadian Pacific is the marked and rapidly growing change in travel habits affecting passenger train service. The growth of private automobile travel has made it necessary to eliminate passenger trains on many branch lines. Reduction of train service on main lines has also been undertaken. Further curtailment is indicated as the public's preference for air travel for longer distances and private automobile travel for shorter distances continues to grow.

To meet expanding public demand for air travel, Canadian Pacific Air Lines was granted authority in 1959 to provide one flight per day in each direction between Vancouver, Winnipeg, Toronto and Montreal. This service, inaugurated in May, has proved so popular that many patrons have been subjected to inconvenience as a result of the restriction on the frequency of its flights and many of those wishing to use C.P.A.'s transcontinental air service were unable to do so. Before the end of 1960, the limited authority as to flights and route patterns now held by Canadian Pacific Air Lines will be reviewed. It is anticipated that expanded services of Canadian Pacific Air Lines to the Canadian traveling public will result.

Canadian Pacific Air lines also expanded its services in the international field in 1959 by increasing flights to the Orient and to Mexico and introduced Britannia aircraft on this latter service. On March 4, 1960, the company will inaugurate flights between Eastern Canada and Rome. This direct link between Canada and Italy will be a most welcome new service to numerous Canadians traveling to the Holy City as well as to the many who have emigrated to Canada from Italy.

Canadian Pacific in 1959 has continued to give close attention to improved efficiency of surface transportation by integrating merchandise handling on road and rail. In British Columbia a new operation fully integrating merchandise handling at Vancouver and on Vancouver Island was inaugurated in October. This new service combines through a central agency all l.c.l. rail, truck and express operations. Further extensions of this new integrated service, which has been well received by shippers, will be carried out in 1960.

Substantial development has also been undertaken in the movement of truck trailers on flat cars. This service, commonly known as piggyback, has been expanded so that it now covers 6,000 Canadian Pacific route miles and extends from the Atlantic to the Pacific. The advantage of piggyback service in combining the efficiency of rail line haul with the flexibility of truck terminal movement has necessitated placing some 900 specially equipped flat cars in service.

Progress in the communications services of Canadian Pacific was made during the year. Telex facilities, which give rapid printed communication service to business and industry, were extended to a number of new areas in Canada. In addition, new links were added between Canadian and United States subscribers to augment the existing network to Europe and the United Kingdom. A number of private wire teletype systems specially designed to meet the needs of customers were also placed in service during the past 12 months.

Canadian Pacific, through its wholly-owned subsidiary, Canadian Pacific Oil and Gas Limited, drilled, during the year, 42 wells, of which 24 were completed as gas wells, 5 as oil wells and 13 were dry holes. A number of other wells were drilled on company lands through farmout agreements. On Nov. 1, Canadian Pacific Oil and Gas Limited began delivering gas to Trans-Canada Pipe Lines Limited at the rate of about ten million cubic feet per day.

Canadian Pacific is actively seeking solutions to the problems with which it is faced. It is widely recognized that the economic well-being of Canada requires railway service from Canadian Pacific on a sound financial basis.

## F. R. DANIELS

**President, Paton Manufacturing Co., Ltd.**

It is difficult to prognosticate the future of the woolen and worsted industry or, for that matter, of any of the textile industries in Canada, without qualifying or hedging your remarks. 1959 was a busy year for the worsted mills, more so than the woolen division of the business. For the last two seasons the style trend has been away from woolens over to worsteds to quite some degree; the result is that many of the woolen mills have had to turn to weaving worsted type fabrics. This means, then, that not only have the worsted weaving mills been busy, but also the worsted yarn mills.

This trend would appear to continue into 1960, and for this reason we can regard 1960 as likely to be a reasonably busy and satisfactory year for the worsted spinners and weavers.

One of the reasons why Canadian mills have been, and are, enjoying good worsted business is that our prosperity in this field is linked with that of Great Britain. Our understanding is that Yorkshire mills have never been busier, and that they have order books extending into the third, and in some cases the fourth, quarter of this year. When the Yorkshire trade is prosperous then some of the pressure on the Canadian industry is lifted.

Also, Canadian mills have done an outstanding job of styling and designing not only regular worsted type fabrics, but the designing, styling and promoting of fabrics containing a blend of fibres.

It may seem difficult to understand why the Canadian worsted industry is active and moderately prosperous at the moment in view of the fact that our share of the Canadian market is a bare 51%. A very real reason, of course, is the fact that today there are far fewer units, in fact 25% fewer, to fight for that 51% than there were a few years ago.

This state of moderate prosperity will prevail only as long as the Yorkshire mills continue to be prosperous and Japanese exports into Canada, particularly in the form of finished garments, can be contained.

## HON. JOHN G. DIEFENBAKER

**Prime Minister of Canada**

I appreciate this opportunity to congratulate *The Commercial and Financial Chronicle* on its undertaking to publish a Canadian Review and Outlook edition, and I send best wishes on behalf of my fellow Canadians to all its readers.

John G. Diefenbaker

This advent of the 1960's marks the opening of what I am sure will be another decade of advancement and achievement for this country, including as it does the celebration of Canada's 100th Anniversary as a nation.

## HON. T. C. DOUGLAS

**Premier of Saskatchewan**

The year 1959 has been a good one for Canadians as the economy proceeded well along the path of recovery from recession and towards new highs in many sectors of development. I believe we have every reason to be confident concerning our prospects for 1960. The outlook for the year ahead suggests only a slight modification in the rate of increase in gross national production — and this only toward the end of 1960.

T. C. Douglas

In current dollars the GNP is likely to reach $36-$37 billion, some 5-6% above the forecast figure of $34.8 billion in 1959. Some forecasts for 1960 optimistically range as high as an increase of 7%. Fortunately price levels are expected to remain fairly stable and the gain in output will be largely in real terms.

The highlight of the economy in 1960 is anticipated to be the renewed strength in the business capital spending field, which is expected to show the first appreciable year over year increase since 1957. On the other hand, outlays for housing and investment in social capital may not show the same rate of growth that has been apparent over the past few years. Record interest rates and extreme tightness in the capital market bear most heavily upon provincial and municipal govern-

ments and will enforce extreme caution in capital budgets.

Canada's export prospects for 1960 are fairly encouraging, although some decline in wheat shipments may be in prospect. It is hoped that substantial benefits may be derived from new trade opportunities opened up by the removal in the United Kingdom and Western Europe of restrictions on imports from dollar areas. Our economy should also benefit from the expected upsurge in the United States. The most important objective should obviously be the expansion of world markets for Canada's basic commodity exports and this task will provide a real test for the government at Ottawa.

As for Saskatchewan itself, we were fortunate to have been affected in only a mild way by the recession of 1957-58, and the year just ended has witnessed continued economic growth. The gross value of commodity production rose about 3%, representing a cumulative advance of 133% over the past 15 years. By far the greater part of this increase has taken place in the non-farm sectors of our economy, notably in minerals, manufacturing, construction and electric power.

The farm sector has been adversely affected for some time by declining farm prices and rising farm costs. Moreover physical conditions have not been favorable for the past three years. Carryover stocks of grain on farms in Saskatchewan will be reduced to nominal levels by mid-1960, and consequently the farm economy will be particularly dependent this year upon the fall harvest. Fortunately sub-soil moisture conditions are more favorable this spring than for some time, thus materially improving prospects for the year. While hog prices are falling rapidly, it is expected that cattle prices will hold up well and income from livestock is expected to remain at fairly high levels.

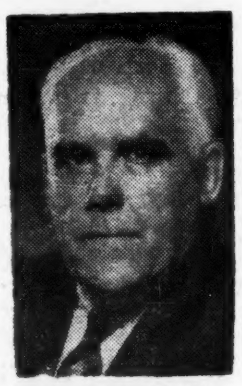
In the non-farm sector, the resource industries should continue on a fairly stable basis. Despite tight markets for crude oil and the clouded prospect for uranium, the gross value of mineral production is forecast to rise by a further 5-6% in 1960. The phenomenal growth rate in electric power demand shows no signs of slowing up. Despite weakness in some sectors of the capital investment picture, it is clear that building and construction will continue at a very high level. The manufacturing industries were particularly strong in 1959, and are expected to show a further substantial advance in 1960. An increase of 7-8% in value of output this year is forecast. One of the most significant developments will be the entry into production of a basic steel mill in Regina. The rise in employment and income has been reflected in buoyant retail trade and services. Total retail sales should approach $1 billion in 1960.

The trend of growth in Saskatchewan is readily apparent in current population figures. Over the post war period we have been successful, first in checking the drain of population from the province consequent upon the rapid mechanization and increase in size of farms; and second, in positively restoring the forces of growth by providing alternative opportunities for employment in industry. Since 1951 our population has risen by almost 10% and we look forward to the 1960's to the prospect of an accelerating rate of growth in this and other economic indicators.

### THOMAS W. EADIE

**President, The Bell Telephone Company of Canada**

The expansion of business activity during 1959 is expected to continue this year although some moderation in the rate of growth is foreseen. Most of the increase in national output will be in real terms as prices are not expected to rise any faster in 1960 than in 1959.


Thomas W. Eadie

Support for expansion is expected to come from a higher level of consumer expenditures, some increase in capital outlays by business and industry and possibly further rebuilding of inventories.

Demand for telephone service remains strong. Total telephones are expected to exceed 3½ million by the end of 1960, almost double the number in service 10 years before. To meet continuing demands and provide for necessary replacement and modernization of plant, large capital outlays are planned for 1960 and, indeed, for the next five years.

The recent decision to increase the dividend on the company's stock will strengthen our position in competing for the new capital required to finance our construction program.

During the past year our company made notable progress both in serving existing customers and in preparing to meet future requirements for our services. We added over 180,000 new telephones, raising to more than 3,320,000 the total the company now serves. In doing this, we were able to reduce to less than 5,000 the unfilled orders for service, and to less than 7,000 those for individual in place of party-line service. A related feature of our 1959 story was further marked in the proportion of urban residence customers who have individual line service; they now number 56%.

About one-third of the company's operating revenues come from long distance services, and our customers made 9% more long distance calls than in 1958. This is a service to which we have devoted a vigorous promotion effort—both through advertising and by means of sales visits to business service customers.

Expenditure on new equipment, installations and buildings in 1959 exceeded $190,000,000, the biggest construction budget in our history. To help finance the improvement and expansion of service, over $85,000,000 was raised in April through the issue of new stock. At the end of the year arrangements were made for the sale of a $35,000,000 bond issue, dated Jan. 2, 1960, bearing interest at 6¼%. This rate, much higher than we have had to pay for bond money for more than 25 years, reflects the general situation in the investment market.

Telephone rates are designed to meet the cost of operating the service and provide a fair profit, but not to pay for expansion. To continue to provide service of the quality and quantity our customers require, we shall have to raise further large amounts of new capital in the years ahead. Faced with such a requirement under present economic conditions the Board of Directors announced in November that the dividend for the fourth quarter would be raised from 50 to 55 cents per share payable Jan. 15, 1960.

The number of shareholders increased during the year by over 12,000 to 170,000. Those resident in Canada make up 98% of the total, and they own 92% of the shares. The American Telephone and Telegraph Co. now holds less than 4%.

Besides their many other advantages, our new instruments are designed to be centers of attraction in the modern home or office, and 1959 brought a large increase in customer demand for colored phones. This made possible important economies in production, warehousing and distribution, and enabled us to reduce the "one time" charge for color from $12 to $9 per telephone. Of particular appeal to businessmen has been a radically new style of telephone, the Call Director. It combines regular facilities for outside calling with a flexible intercommunication system with connections to as many as 30 other telephones.

Together with our fellow members of the Trans-Canada Telephone System, we cooperated with the Canadian Broadcasting Corporation to bring televiewers across the country a day-by-day record of the visit of the Queen

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and Prince Philip. Extensive transmission facilities were set up for television and radio, as well as for newsmen and press photographers. We also installed special telephones on the royal train and organized dock-side communications for the "Britannia."

## HON. H. J. FLEMMING

**Premier, Province of New Brunswick, New Brunswick, Canada**

As the statistical results of the past year's economic activity become more complete, more and more information is available to indicate that the Canadian economy experienced a rapid rate of growth but without undue strain or dislocation. The impetus for this growth was largely provided by expanded levels of consumer spending, an increased rate of new capital investment, and about a 5% increase in the level of Canadian exports. The end result of the interaction of these variables was a year of rapid recovery from the third postwar recession both for the Canadian economy in general and for the New Brunswick economy in particular.

Hugh John Flemming

In New Brunswick during the past year these same factors were at work to promote economic expansion, but the major factor contributing to the higher level of economic activity achieved was the tremendous upsurge in new capital investment—an increase in excess of 20% over 1958. These expenditures—totaling a record sum of approximately $220,000,000—included a wide range of projects; a $50,000,000 oil refinery at Saint John; a tissue-making paper mill at Lancaster and numerous other smaller manufacturing plants. While adding to the volume of activity during the year, these projects also made a substantial contribution towards the industrial diversification of the Provincial economy and such increases in capacity will, in turn, be generating additional income and employment in 1960 and future years.

In assessing the likely course of events in the coming year, there is every indication that the New Brunswick and Canadian economies will experience a continuation of the current trend towards economic growth. With consumer and business incomes increasing in both domestic and foreign market areas, particularly in the United States, exports and domestic sales should continue to increase, and thus generate increased incomes and employment in this sector. In addition, from the information available at the present time a substantial additional increase in capital spending can be expected, which will provide further impetus to the rate of economic expansion. In the public sector of the economy, rising levels of personal income and corporation profits are being reflected in increased government revenues at all levels, and it is anticipated that the total volume of government spending will be somewhat greater than was the case in 1959.

These considerations point to production increases of considerable magnitude, and while there is still some excess productive capacity available, there is likely to be a degree of excessive pressure on available resources. This may well give rise to the development of shortages on the supply side, but with the steel strike settled, the extent of inflationary pressure should not be excessive. However, with the rate of economic expansion which is anticipated during 1960, it would be most unrealistic to expect that it can be achieved without some measure of price increase.

To sum up—it is apparent that a substantial upsurge in business activity has taken place in the past year and is likely to reach even greater proportions during 1960. Within this framework, the only foreseeable cloud on the horizon at the present time is the extent to which this expansion will result in inflationary pressures on our resources.

## HON. LESLIE M. FROST

**Prime Minister of Ontario**

During the past year the Canadian economy regained its buoyancy and our industries and businesses are again advancing rapidly. At the commencement of 1959 we were just coming out of the recession of late 1957 and early 1958 and our industrial and manpower resources were not being fully utilized. As the year progressed the tempo of economic activity gradually accelerated so that for the year as a whole we passed all previous records in income, production, employment and retail sales.

Hon. L. M. Frost

These economic records were spread through most sectors of our economy and in fact brought our gross national product to an all-time high of about $34.6 billion, 6.7% above that of 1958. The upturn in activity brought both higher employment levels and increased earnings. The resulting steady rise in personal income throughout 1959 was well distributed throughout the country and was reflected in continuous gains in consumer expenditures. Retail trade again reached a new peak. 1960 promises even greater trade potential as the population is continuing to rise and incomes are steadily climbing. In 1959 sales of motor vehicles broke all previous records and most people in the industry anticipate an equally good market this coming year.

The manufacturing industries made a major contribution to Canada's economic recovery and by the beginning of the fourth quarter our factories were manufacturing about 10% more goods than at the same period in 1958. For the first 10 months of 1959 the value of factory shipments exceeded those of 1958 by 6%. Nearly all manufacturing industries participated in this year's upturn in activity, but the greatest rise was in the heavy iron and steel, concrete and cement products, motor vehicles and pulp and paper industries. Our continuously growing population which is now increasing by about 2.3% per year, provides a constantly growing market for consumer goods. Particularly in the nondurable sector, there has been a steady increase in production for the past 15 years and this growth continued in 1959. Durable consumer goods also rose in response to rising consumer spending.

Increased demand from the United States and other outside markets for such commodities as lumber, woodpulp, newsprint, farm machinery, uranium ore and concentrates, iron ore and electrical apparatus has also acted as a stimulus to our economy. Further improvements in these sectors of our economy will depend to a large extent, on what happens to our export markets and in the final analysis to the buoyancy of the United States economy and that of other trading nations.

Last year production of Canadian mines passed all previous records. Our total mineral production was valued at $2.4 billion. The increase from 1958 was brought about almost entirely as a result of the upturn in our export markets. Both iron ore and uranium showed phenomenal increases but the outlook for our uranium mines is not too promising for the next few years.

The pulp and paper and other forest products industries have also been booming during the past year. The upturn in building activity in the United States provided a substantial boost in the market for our west coast lumber industry. Then too, 1958 had brought a setback in our newsprint and pulp and paper industry. We are pleased to note that world demand for paper products is again climbing and Canada seems to be regaining her share of the market.

On the whole Canada has had a very good year and as the pace of business activity is continuing to accelerate we can look forward to further improvements in the coming year. Our development and investment has been slowed down to some extent by tight money but, nevertheless, new capital investment in 1959 probably exceeded the mid-year estimate of $8,545 million and is expected to be even higher in 1960. As our new capital program has been absorbing about one-quarter of our gross national product, in recent years, it is little wonder that we face some difficulties in raising sufficient capital for this investment. Even though our capital program has been slowed down slightly it is still of vast dimensions and we are looking forward to continued advances in the development of our resources and our industrial capacity in the coming year.

## J. A. FULLER

**President, The Shawinigan Water and Power Company**

Economic forecasters looking into the decade ahead have made much use of the term "The Exciting 60's."

However, although the next 10 years will undoubtedly prove exciting, I think "The Challenging 60's" puts the Canadian economic picture in a much truer perspective.

J. A. Fuller

The 50's ended for Canada on an encouraging note. Population was over the 17.5 million mark and the country's gross national product surpassed the $34.5 billion forecast for 1959. At the turn of the decade economic recovery was moving ahead at a strong pace.

But no road is without pitfalls, and this is where the challenge presents itself.

Canada suffers from an imbalance of trade, very heavy vis-a-vis the United States and quite serious overall. The Canadian economy is based on raw material resources which are much greater than the country's ability to consume on the domestic market.

In the decade ahead, it will likely become increasingly difficult to market both raw materials and manufactured goods in Europe and elsewhere. Our economic growth, therefore, will depend a great deal on U. S. conditions, and our exports to the U. S. will need to be competitive with those from other countries.

How well Canada will make out in the face of increasing competition for trade depends, to a large extent, on how well we are able to keep prices in line. If this is to be done, Canadian labor must realize that Canada cannot compete if her goods are priced out of the market.

To survive as an important industrial nation in the 60's, Canada must also consume more of her raw materials at home. For this reason Canada needs the highest possible level of immigration within the country's capacity to absorb it without causing serious unemployment problems.

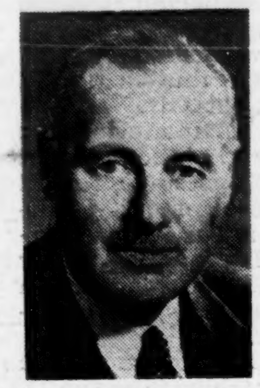
Despite the tough competition ahead on the international market, Canada's gross national product will likely surpass easily the $50 billion mark during the 60's, as predicted.

I believe that in the decade ahead the world may find itself divided more and more into trading blocs. Canada as part of the North American bloc, will have to look more and more, for price and geographical reasons, to its southern neighbor as its natural market. Since Canada is the best U. S. market and since so much of Canada's industry is controlled in the U. S., I feel that it is in the interest of the U. S. to encourage Canadian exports to the United States.

## SIR NEVILLE GASS

**Chairman, The British Petroleum Company Ltd.**

The oil industry can look forward in 1960 to another substantial increase in the demand for its products continuing the long-term growth trend which it has heretofore enjoyed. More cars, more air travel, further dieselization of railways, developments in central heating and the expected continued increase in world population and world industrial activity will create new demands for oil.



Sir Neville Gass

The petroleum industry has ample resources throughout the whole chain of supply to meet the increase and indeed in certain spheres there is an over-abundant supply. Production is becoming available from areas which have not hitherto made a major contribution to the international movement of oil supplies, but if the forecast growth in demand is realized, which on a 6% per annum basis now represents some 60 million tons annually (approximately 1,200,000 barrels daily), there should be room for both new and existing sources.

The development of new sources of production, either indigenous to or near the main consuming areas as in the Sahara, will mean a slower rate of growth for tanker demand than would otherwise have been the case. Nevertheless, the requirements for tanker tonnage should continue to increase and there is an ample margin of available vessels to cope with increased requirements.

During the past decade the oil industry has been able fully to meet the demand for its products although this demand has practically doubled in the decade. The industry enters the 1960s in the highly competitive conditions inseparable from over-abundant supplies and is well equipped to continue to play its full part in meeting the world's energy requirements.

The past year was a particularly memorable one in that we completed our first half century. During our jubilee year the emphasis on activities was on the continued extension and development of our physical assets in the United Kingdom, Europe and overseas.

### Refineries

Work continued during 1959 on two new refineries. The Group's first refinery in Canada, with an initial processing capacity of 25,000 barrels daily, is nearing completion at Ville d'Anjou near Montreal. Construction is also well advanced on the 88,000 barrels-a-day refinery at Dinslaken in the Ruhr, Germany, due for commissioning in mid-1960. At Grangemouth Refinery, Scotland, a new distillation unit was completed which raised capacity from 44,000 to 64,000 barrels-a-day.

### Exploration

In Libya, where BP Exploration Company received additional prospecting concessions, a deep test well was started last October, and extensive survey work was in progress at the close of the year.

Companies in which we are interested were again active in France and French North Africa. The Societe des Petroles de Valence completed a program of four test wells in its permit areas in France, and received additional permits in the Algerian Sahara, where in November the company started drilling its first test well. In Senegal, French West Africa, two test wells were drilled, and a number of seismic surveys carried out for the Societe des Petroles du Senegal.

Exploration in East Africa in 1959 included survey work in the coastal areas of Kenya and Tangganyika and on Pemba Islasd, and a marine survey off the East African coast. In British Somaliland, BP Exploration Company started survey work in the latter part of the year with a program that included the drilling of a series of shallow test wells, and marine surveys off the coast.

In Nigeria, there was further progress in establishing oil production on a commercial basis and in 1960 it is expected to reach 25,000 barrels daily. The Shell-BP Petroleum Development Company of Nigeria also continued its survey and drilling program.

Following the oil strike with its first well in 1958, Abu Dhabi Marine Areas Ltd. continued its underwater exploration in the Persian Gulf off Abu Dhabi, where the drilling barge "Adma Enterprise" has drilled two further test wells.

### Sinclair Agreement and Marketing

Following the agreement between BP and Sinclair Oil Corporation in 1958 to cooperate in certain operations in the Western Hemisphere, the formation of two jointly owned companies—Sinclair and BP Sales Inc., and Sinclair and BP Explorations Inc.—was announced last March.

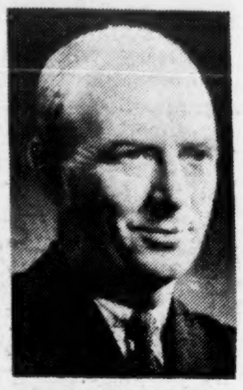
BP further extended its marketing operations in 1959. In Canada, as a result of continued expansion there were 600 BP retail outlets in the Montreal and Toronto areas by the end of the year. A new marketing company, BP Italiana S.p.A., was formed in Italy, and last April the BP colors appeared for the first time on pumps on the northern part of that country.

The BP International Bunkering Service is now available to shipping at about 200 ports throughout the world. Air BP, the Group's international aviation fueling service, has continued its development and last November extended its network to Canada.

## G. B. GORDON

**President, Dominion Textile Co., Ltd**

The improvement which has taken place over the past six months in the American cotton manufacturing industry is good news for its counterpart in Canada. The impact of the substandard price levels which persisted for so long in the American market for yarns and fabrics has been felt very keenly in the Canadian scene. The situation has been aggravated since early 1956 by the system of equalization payments" applying to exports of American manufactured cotton products to Canada and other export markets. Up to the end of November, 1959, these payments had reached a total of over $48,000,000, and four countries out of 100 listed accounted for about 61% of that total, with Canada by far the largest. Even with better times the export bounty on cotton products now standing at upwards of 9 cents per pound of goods exported, offers a strong inducement to American exporters to maintain a big flow into Canada.



George Blair Gordon

American and Canadian cotton manufacturers have a common problem in meeting the competition of cotton fabrics and cotton apparel originating in Japan, Hong Kong and India. The regular ad valorem tariff rates when applied to these goods are of little effect because of the low wage content and the landed values are far below prevailing American and Canadian market levels, thus creating acute marketing problems both for the primary industry and for its customers in the cutting-up trade. The containment measures which have been instituted by agreement by the American and Japanese Governments are far more definite and restrictive than the voluntary moves undertaken by the Japanese interests in respect to exports to Canada, with the result that cotton garments made in Japan now occupy a substantial share of the Canadian market. The year 1960 is, therefore, fraught with serious difficulties for the Canadian cotton manufacturing industry.

## A. E. GRAUER

**Chairman and President, British Columbia Electric Co., Ltd.**

The outlook for Canada in 1960 is promising. With economic activity at a high level, our national income could be up by about 5%. Some of our industries will, of course, prosper more than others. A certain amount of unemployment may, therefore, be inevitable. Prices, on the other hand, are likely to remain relatively stable. Suffice it to say that most business executives throughout the country are facing the coming year with confidence.

A. E. Grauer

This situation finds a parellel in my own province, British Columbia. The recovery in our export trade, which began in the summer of 1958, should gain further momentum in 1960. The level of capital investment should also be well maintained. However, in contrast to the boom conditions which we experienced in the mid-1950's, this year may be one of consolidation. With a somewhat larger labor force and higher levels of income, retail sales should break all existing records. Meanwhile, the results of a heavy inflow of capital into B. C. should continue to put in its appearance in terms of greater industrial productivity.

During the postwar years, B.C.'s economy has received considerable support from a variety of large construction projects. These, in the main, have been allied with the development of our forest and mineral resources. An exceptionally high rate of population growth has also led to heavy expenditures on housing and other such capital.

While housing may be off somewhat in 1960, the province's total capital outlay on new physical assets may approach $1,250 million this year. Elements of strength are appearing in the commercial and industrial sectors. The public utilities in this province may also spend somewhat more on new plant and equipment in 1960 than they did in 1959. The largest single segment of the provincial economy, the forest industry, is expecting things to perk up somewhat. Markets for pulp and paper are expected to improve. The outlook for lumber, on the other hand, is clouded by the fact that housing starts may continue to decline in both Canada and the United States.

In the manufacturing field, which is of steadily growing importance to British Columbia, the outlook is mixed. But the general tone for 1960 in this field is definitely expansionary. I expect increased expenditures on repair and maintenance to modernize our industrial plant and to lead to improvements in plant efficiency and operating techniques.

A large proportion of the products of our forestry, mining and fishing industries is exported. It is, therefore, refreshing to see that others are forecasting relatively high levels of business activity for North American economy as a whole, and throughout Western Europe. I also expect that B.C. will continue to benefit from the progressive removal of currency and other trade restrictions abroad. Our sales of primary products to the U.S. may actually increase now that the steel strike appears to be settled. Further demands from overseas importers are also expected.

A prosperous 1960 augurs well for the commenoement of a new decade. I believe that we will continue to share in the increasing prosperity of the rest of Canada and with that of our various trade partners. A higher standard of living will undoubtedly result in additional demands for the various products which B.C. possesses and can produce most efficiently. This impetus, together with the desire of many people to move to the West Coast, should result in an era of exceptional economic growth.

## G. ARNOLD HART

**President, Bank of Montreal**

The economic recovery, which got under way slowly and somewhat haltingly in 1958, has steadily gathered strength during the past year, although the prolonged steel strike in the United States has had some temporary deterrant effects in Canada in recent months. The commonly accepted measure of our over-all business activity—the gross national product—has been rising consistently and may well approach $35 billion in 1959 as a whole, compared with $32½ billion in 1958.

G. Arnold Hart

A rise in business activity of the order of 7% in one year is above average, but to a significant extent it has represented simply a reversal of the former recessionary trends and a re-emergence of deferred demands. Canadian business has been rebuilding its inventories at a moderate rate instead of reducing them. The Canadian consumer has been spending more on durable goods after a period of nearly two years in which such outlays were virtually stable. Exports have expanded very little, but imports have been substantially higher and our trade deficit is over twice as large as it was in 1958. Only in recent months have capital expenditures begun to contribute to the general upward trend.

An important aspect of the recovery, both in 1958 and 1959, but one that is perhaps inadequately appreciated, has been the striking improvement in efficiency achieved by many firms in many lines. Thus, while employment has expanded and unemployment has dwindled, the rise in employment has been far outstripped by the rise in production. Moreover, higher rates of pay, together with larger numbers employed, have carried total payrolls to new record figures. Yet average consumer prices were slightly lower in July, 1959, than in October, 1958, and the rise in recent months has been largely a reflection of a regular seasonal upturn in food prices; the general level of wholesale prices has been virtually stable this year. Gains in productivity thus appear to have played an important part in helping to preserve the purchasing power of money.

In short, the recovery experienced by the Canadian economy during 1959 has been strong, healthy and on a broadening base. It has been a real recovery, little inflated by price increases, and shortages of goods, manpower and productive capacity are neither present nor in prospect. But it has not, in any sense of the word, been a boom.

**The Rewards of Stability**

Actually, and I feel this is insufficiently realized, the monetary stability and the price stability we experienced last year have already paid some very solid dividends. For one thing, inflationary psychology has abated. For another, within the past 12 months the Canadian public outside the banks have acquired over $2 billion of government debt at a time when the increase in the debt has been only about $600 million. This is the reverse of the situation in 1958 when the increase in the debt was perforce being taken up by the banks and thus adding to the money supply. There is a further constructive development without which monetary efforts, as such, would have proved unavailing, namely, the fact that the Federal Government's cash budget appears to be moving towards, instead of away from, a position of balance.

And let me add to this, with the strongest emphasis, that another bout of inflation is something that this country, as a trading nation, just cannot afford. Canada is doing business today in an increasingly competitive world. I was immensely impressed, during the course of an extended business trip through the British Isles this autumn, with the vigorous activity and expansion that are apparent on every hand, and with the resolute, and successful, measures to achieve this growth without inflation. The United Kingdom and most countries of Europe have faced up to, and dealt with, their monetary problems, and have taken the drastic, unpopular, but necessary steps to achieve stability of costs and prices. Their several moves towards convertibility of their currencies and reduction or removal of import restrictions have placed the onus to compete in their markets squarely upon the seller. These accomplishments of our overseas friends present an example and a challenge, not only to Canada, but if I may say so, to the United States as well. I sincerely believe that if we on this continent do not similarly resist the temptation to take the easy inflation-

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ary path, there is a real danger of the North American economy becoming a "high-cost plateau" and living in expensive, but not splendid, isolation from the expanding flows of world trade.

## J. G. HUNGERFORD

**President, National Trust Company, Ltd.**

Business in the United States appears to be still in a phase of expansion, and we in Canada can, I think, enter 1960 with the expectation that we will see a continuation of steady, if not spectacular growth in most sectors of the community. Certainly there is little evidence to indicate that we will experience over-expansion typical of uncontrolled boom conditions.

J. G. Hungerford

Foreign investment has been an important factor in the Canadian economy especially since World War II. Should it decline to any marked extent we would likely see a narrowing in the premium on the Canadian dollar.

This, while helpful to our exporters, would increase living costs and perhaps be a disturbing factor in the employment picture.

## H. R. JACKMAN

**President, Dominion & Anglo Investment Corp., Ltd.**

While the stock market indices clearly indicate that Canada has not been so favorable a field for market appreciation as formerly, or so interesting as the U. S. A. during the last two years, economic growth has continued apace. The Toronto Stock Exchange Industrial Index went up only 33% in that time while the Dow Jones Industrial Index rose over 55%. About 25% of our Gross National Product has gone into capital assets with the result that there is some surplus capacity and an oversupply of raw materials, such as oil, copper, and zinc, available from our treasure house of natural resources. Aluminum and uranium also face marketing difficulties. As one prominent American, relating our economic activity to the prices of our securities, said, "For the first time in some years Canadian stocks have glamor." The demand for capital has raised interest rates on Government of Canada bonds from about 4.60% to 5.50% with the last year. There seems no immediate prospect of the lessening of demand for capital. The battle of the yields between bonds and stocks is now universal, and with 6¾% for corporate bonds and an average of 4.00% for common stocks, the advantage is all one way.

H. R. Jackman

Nor is the threat of inflation strong enough to overcome the disadvantage in yields. The Canadian Government is very conscious of the need to keep costs down or we are likely to outprice ourselves in both our domestic and export markets. While it is not easy to follow a wage pattern divergent from that set by the international unions in the U. S. A., our government is making every endeavor to prevent a boom and bust tendency and to bring its budget into balance and should, even this year, come very close to so doing.

A high rate of economic activity and ample consumer purchasing power is always conducive to high consumer imports, and notwithstanding a very unfavorable balance of trade with the United States, our dollar remains at about a 5% premium over the U. S. dollar. We do not like it for it encourages imports and militates against the profitability of our export industries. Eying our natural resources, American money likes our safe political climate and continues to find attractive avenues of long-term employment.

While Canada lacks the fields for investment which a much greater population will some time afford, such as electronic and research industries, as well as taking in each others' washing on a large scale, our overall rate of growth is most satisfactory. When the final figures for 1959 are released, Gross National Product will show an increase of about 7%. Businessmen still eagerly seek capital for industrial expansion.

We already have more than enough oil to supply our needs and have only scratched the surface of the vast sedimentary basin in Western Canada. Still we import over 250,000 barrels per day because we have not yet decided to solve our transportation challenge.

Our natural gas discoveries, which have largely been incidental to the search for oil, are probably greatly in excess of our projected needs, and much more is expected to be found. Canada has abundant and cheap energy; it has nature's raw materials; it has a growing population. If we develop adequate domestic and foreign markets, the character of our people is such that investment in Canada should be both sure and profitable.

Should the European Common Market and the "Outer Seven" develop a high consuming middle-class market as seems likely, it may well be that a profitable demand for our resources will bring about an even greater measure of profit and even faster growing population.

## E. H. LaBORDE

**President, Canadian Homestead Oils, Ltd.**

The youthful Canadian oil industry has entered the decade of the Sixties with a determination to become a leader in Canada's rapid economic growth. Across Alberta and other Provinces which participate in the exploration and production phases of the business, the signs pointing out the direction of this growth are clearly evident.

Edward H. LaBorde

In the Fifties development of western Canada's raw material supplies was of sufficient size to support a far greater industrial economy than has been achieved to date. Our supplies of oil and natural gas, of coal and sulphur, of water and timber are an endowment for the future, an endowment which must be developed to be of value.

The Sixties will witness major strides forward in this development. In Alberta all the elements to support an industrial economy exist in abundance. Whether it be petrochemicals or steel or the many sub-industries built upon these two basic converters of raw materials, the Western Canadian area can become the scene of North America's fastest industrial growth.

Already, the Prairie Provinces are witnessing the first steps in developing this wealth, construction of transportation facilities, such as pipelines, a vast system of highways, new railroad, and even water transportation to the Arctic Ocean and beyond. Manpower to create this new economy is pouring into Western Canada, resulting in a startling growth in the construction of new homes and schools and in the volume of retail trade. Western Canada today enjoys a climate of opportunity for industry and individual alike.

For the near term, rapid growth will be recorded by the Canadian natural gas industry. Reserves already discovered and developed will shortly be marketed not only across Canada but also throughout the northern tier of states in the midwest. The U. S. Federal Power Commission has given its approval for export of Canadian gas to the United States at Emerson, Manitoba. The actual flow of gas awaits final approval of Canada's National Energy Board, expected in the near future. It is likely that this event will be followed by similar approval for export of Canadian gas by the Alberta & Southern Gas Co.

These new markets will create a need to develop additional gas reserves, through extensive drilling operations, construction of new gathering systems and pipelines, operation of extraction plants to remove liquid products from the dry gas, and a renewed emphasis in the search for further discoveries. The surge of industrial activity which this will stimulate can extend throughout the entire economy of the Prairie Provinces.

Meanwhile, the frontiers of Canada continue to be explored. The petroleum industry has pushed its search for possible reserves through the far north, to the shores of the Arctic Ocean and beyond to off-shore islands. During the past summer many teams of geologists gathered a weight of evidence that this northern area contains deep sedimentary basins which deserve exploration through drilling. The pressure of economic progress makes it likely that the first test well will be drilled in the Arctic Ocean area during the summer of 1960, farther north than any well previously drilled by private enterprise.

In all the free world there are few areas of economic opportunity which offer both the challenge and the potential of growth presented by the business climate of Western Canada.

## H. E. LANGFORD

**President, Chartered Trust Co., Toronto**

Business forecasting is extremely hazardous even with usually reliable indicators of business activity to hand but without them the forecast becomes an educated guess at best. As we enter the "60" decade, our long range economic thoughts turn to the contribution Canada will be called upon to make in the world wide drive to assist the underdeveloped areas of the world. The repercussions these contributions could have on our economy and the possibility of increased world demand for our natural resources have to be assessed. Tight money to stay with us for most of the year along with high interest rates. Premium on the Canadian dollar—easing perhaps by mid-year or sooner with all the many benefits of a reduced premium or even discount on our dollar becoming apparent. Perhaps government and/or central bank action may be taken to hasten the return of our dollar to at least parity with the United States dollar. Increased competition for our natural resources industries must be anticipated and price competition met if 1960 is to go into the books as a good year for the Canadian economy. Our balance of payments deficit on international account will not diminish to any great extent. Foreign investors will grow more cautious with regard to investing in Canada as investment opportunities in other parts of the world present more and more growth possibilities in areas returning to prewar economic and political stability. Internal trade in Canada will be maintained at the present high level as consumer confidence continues and is supported by large injections of credit and while industrial and commercial capital expenditures are maintained at a healthy level.

Henry E. Langford

Our best customer, the United States, will continue to be just that. In fact unless we arrest our wage cost push and its effect on our price structure Uncle Sam may become the only customer able to afford our prices. With export of natural gas given the green light, the industry will start to come of age with the resultant benefits not too apparent in 1960 but holding out high hopes for the years to come. Inflation will be officially declared by Ottawa as having been contained.

Our ability to produce competitively under more and more world wide competitive conditions will be put to severe tests in certain segments of the economy.

The Federal budget will be brought into more or less balance with the cash balance still eluding the authorities. Unemployment will not present a problem until late in the year. The second year of operation of the Seaway will show if Canadian exporters are alert to its possibilities of making us a major trading and exporting nation—natural resources industries excepted.

On balance 1960 will be generally a very good year for most Canadians as the momentum of 1959 carries over into the start of the "Soaring Sixties."

## CHARLES S. LEE

**President, Western Decalta Petroleum Ltd.**

As Canadian independents it is hard to accept a position by which Canada is the only sovereign country now having 50% of its production closed in and its domestic market wide open to crude at any price, particularly as these low priced crudes have no effect toward reducing consumer prices either across the country or, more particularly, at the point of entry.

Charles Stirling Lee

About 60% of the country's trade deficit in the balance of merchandise trade can be ascribed to the heavy importation of crude oil and products, which this country could supply for itself from its own resources.

The industrial prospects for Canada in 1960 are said by economic experts to be good. If we may assume a general increase in the use of crude oil and its products of 5%, in line with the fair-weather forecasts by industry at large, then as an independent it is obviously better to take part in 5% increment in the use of crude oil by all Canadians, rather than 5% of the increase in the use of crude by 50% of the Canadians.

It is equally hard to understand why the very large sums of money being spent to purchase crude oil and products from Venezuela and the Middle East amounting to about $400,000,000 per year, should not be spent within the boundaries of Canada to stimulate further industries, further employment and the further growth of our own country.

The reduction in the deficit of merchandise trade in such large amounts and the infusion of a like amount by way of investment in Canadian commerce and development should react favorably on the rate of exchange between Canada and the United States. As the Canadian and U. S. dollars approach parity Canadian goods in general and in particular Canadian oil will become more and more competitive in the U. S. markets.

In August, 1959, the Borden Commission issued its second report on oil. In essence the Commission hoped that Canada would be able to take advantage of the exemption of Canadian crude oil from the quota system in the United States. Unfortunately we have seen very little effect on our export of crude to the United States since the report was issued. The Commission also made a strong plea for a statement of national policy by the Government of Canada, but our government has not so far seen fit to make any declaration. Another and probably the most important of their recommendations was to the effect that a target of 700,000 barrels per day of production from Western Canada should be set for the end of 1960. Most of the increment from the current 500,000 barrels per day would come as a result of additional exports into the Puget Sound area, which forms part of District V.

Just recently Washington has set a program of imports into District V, which virtually limits the take of Canadian crude into this area to approximately 52,000 barrels per day. In order to comply with the recommendation made by the Commission's report Canadian exports to District V would have to achieve a figure of at least 130,000 barrels per day.

We may, therefore, assume that the Puget Sound area will do very little toward easing the strictures on the marketing of Canadian crude. Normal increments arising out of the general growth of country, particularly in the Ontario area, should give rise to an increase in existing markets for Canadian crude of between 5% and 8%. There has been a hint of Canadian crude entering the Toledo area, but it is doubtful whether this will have much effect on the general situation during 1960.

There has also been some indication of the reversal of flow of products now entering the Toronto area from Montreal. At present about 50,000 barrels per day flow into Toronto through the Trans-Northern Pipe Line. If this were indeed reversed, it could represent some increase in the utilization of Canadian crude in Eastern Canada.

## L. F. LONG

**President, Building Products Ltd.**

In discussing the construction industry in Canada it would be very helpful if the government's final figures for 1959 and estimate of construction for 1960 were available. However, these figures are not yet issued. Final figures for contracts awarded indicate that 1959 slipped off about 10% from the record year 1958, the principal cause being the downturn in residential construction which dropped from approximately 165,000 starts in 1958 to approximately 140,000 in 1959.

L. F. Long

The construction industry in Canada, as in the United States, cannot be really prosperous without a good house building program. Since the financing of house building seems to be the limiting factor, it might be of interest to U. S. readers to review briefly the machinery of financing house building in Canada.

The National Housing Act is administered by the Central Mortgage and Housing Corporation, a crown corporation. It insures mortgages negotiated with private lending institutions, but also will lend direct to builders, (a) in smaller communities where there is not good representation of private lending institutions, and (b) in cases where it is desired to put special conditions on the type of house produced, such as in the small house programs of the last two years. In 1958 over half of all dwelling starts were financed by N. H. A. mortgages. The National Housing Act was revised in 1954 and the Banking Act was amended at the same time to permit the chartered banks to lend on N. H. A. mortgages. This was supposed to open up a large additional source of funds for housing. However, the demands for commercial loans and loans by various levels of government have been so great that the chartered banks have, for the last two years, been a decreasing rather than an increasing source of funds. Also, since Dec. 18, 1959 the interest rate on N. H. A. mortgages (6¾%) has been above the maximum rate which the chartered banks are permitted to charge (6%), with the result that they are making no mortgage loans. Since the last allotment of government funds for direct lending by C. M. H. C. was exhausted in October, it does not look as though there could possibly be many housing starts under N. H. A. in the early part of 1960. Parliament will probably take some action for relief of this situation, but a drop in total housing starts of at least 10% to 15% from the 1959 level of 140,000 appears probable.

Industrial construction has been on the upgrade through the latter part of 1959 and should continue into 1960. It also looks as though there will be strong activity in power and other natural resource development, as well as natural gas transmission lines if pending export applications are granted.

Commercial and institutional building should continue active with the great need of schools, the demand for hospitals in connection with provincial hospitalization plans, and the trend toward suburban and perimeter shopping centers.

It is not unreasonable to expect that the total volume of new construction in Canada in 1960 will be not far from the figure for 1959, with losses in house building being offset by gains in industrial, commercial, institutional and utility building.

The Canadian building materials manufacturers are in good shape to supply the demands which will be made upon them, and there should not be any sharp price changes except in some areas such as asphalt roofing products where the prices have been abnormally depressed.

## E. D. LOUGHNEY

**President, The British American Oil Company Limited**

Looking back over 1959, we find that the moderately optimistic predictions made for the Canadian petroleum industry have nearly all materialized.

Production of crude oil and condensate should average approximately 510,000 b/d, resuming the steady post-war increase which was interrupted for the first time last year. Domestic requirements of 415,000 b/d are anticipated, with 95,000 b/d for export. Production revenue, although up from 1958, probably will not reach the 1957 level.

E. D. Loughney

Well completions are expected to reach 2,546, down only 42 wells from the 1958 figure. There has not been a great deal of incentive for increased wildcat drilling because of the tight oil markets.

During 1960, crude oil production is expected to advance to between 550,000 and 570,000 b/d, and—barring further price reductions—revenue should establish an all-time high. Domestic requirements for 1960 are estimated at 450,000 b/d. Exports to the same markets as in 1959 should normally expand to 120,000 b/d—with the U. S. Midwest taking 65,000 b/d and the Puget Sound area taking 55,000 b/d of Canadian crude.

Natural gas continues to be a bright spot on the horizon and in 1959 is expected to turn in the best performance of all branches of the petroleum industry. Although statistics are only available for the first eight months, it is evident that an increase of 25 to 30% in production can be expected.

For 1960, growth of domestic markets will provide a measure of continued expansion for natural gas, but to continue such progress it will require substantial export markets. With proved reserves of natural gas estimated in excess of 27 trillion cubic feet, Canada has an abundant supply to meet domestic demands and exports for many years.

The odds appear in favor of at least some gas export and this should give the drilling industry a boost. If this prospect turns out as expected, there should be a possibility of about a 12% increase in drilling activity, for a total of 2,750 well completions in 1960. An extended growth of drilling in British Columbia will probably be one of the features of the coming year.

## J. K. MACDONALD

**President, Confederation Life Association**

Economic activity reached new record levels in 1959. Gross national product, personal income, and consumer expenditures all exceeded their previous high points. The gross national product was 7% greater than in 1958 and as there was relatively little increase in prices, this increase represented a real gain in production of goods and services. Sales of life insurance were close to $6 billion, almost 15% higher than the previous year. Canadians are the most highly insured people in the Western World in relation to national income. Insurance in force in Canada at the end of 1959 was about 150% of national income compared with about 125% in the United States. No other western country shows a similar ratio of even 100%.

J. K. Macdonald

The outlook for 1960 is again bright. Recovery from the recession appears strong and healthy. The gross national product is expected to show a further gain of 5% or more over the preceding year.

With regard to our foreign trade, which is of such great importance to our economy, we must realize that we face keener competition in world markets. To meet this competition, we must keep our wages and prices in line with our productivity.

Perhaps the most encouraging feature of the Canadian scene is the action now being taken by the Federal Government and the Bank of Canada to put a definite stop to inflation. By increasing taxes and by refusing to embark on further government expenditures, the Federal budget may be balanced in the fiscal year ending March 31, 1961. In spite of large demands, the Bank of Canada has refused to add to the inflationary pressures by increasing the money supply. Consequently, due to these large demands, money is extremely tight in Canada and it would seem it is likely to remain so for some time. Basically, our high interest rates are due to the fact that we are attempting more capital expenditures than can be financed from our real savings. The year 1959 was more or less unique in the postwar period from the point of view that even though recovery was proceeding at a rapid pace there was little increase in either wholesale or retail price levels. Prices in Canada on the average showed less than a 1% increase during the year.

While the present high level of interest rates may result in some postponement of capital developments, the basic policies of the Bank of Canada are to be commended. In the last 10 years we have seen the Canadian dollar depreciate by more than 25% in terms of goods and services. Constant depreciation of the dollar in the long run cannot stimulate saving and investment. Every effort must be made to avoid further depreciation of the dollar. From the point of view of the life-insurance industry, a stable dollar is of course most desirable. If we can maintain its value, it will encourage the sale of life insurance and 1960 should see further substantial growth in our business.

## HON. ERNEST C. MANNING

**Premier of Alberta**

The briskly aggressive industrial expansion that has been characteristic of Alberta for the last decade continued unabated during 1959 and commercial indices point to a rate of growth that may establish a record for this province. Significant in the overall program was the continued decentralization of industry, distributing its impact among major and minor Alberta communities.

Hon. E. C. Manning

Particularly notable among industrial developments was the expansion of Alberta's iron and steel industry. A $10,000,000 pipe mill is under construction at Camrose, 50 miles southeast of Edmonton, and a $4,000,000 mill is being built at Calgary.

Evaluation of the extensive iron ore deposits in the Coleman-Blairmore coal mining regions in Southern Alberta has led to considerable speculation that an iron-ore smelter of some consequence may be located in that area. Iron ores have also been surveyed in the northern Peace River district.

Greater industrialization is expected as the result of a $45 million dam project on the Brazeau River in wilderness country approximately 100 miles southwest of Edmonton. The initial installed capacity of the hydro-plant will be 200,000 horsepower. A feature of the project is the possible regulation of water in the North Saskatchewan River, eliminating the annual winter low-water hazard. The dam is expected to be in operation in 1964.

Expansion of Alberta's petrochemical industry was announced in 1959 in two multi-million dollar projects, one at Fort Saskatchewan near Edmonton, another at Calgary, and several major extensions to existing plants.

Also welcomed during the year were two major rubber tire manufacturers. Construction under way on plants located at Medicine Hat and Calgary involves a total expenditure in excess of $10,000,000.

Nine natural gas processing plants were either under construction or in the planning stages during the year. Two of these are expansion projects to increase production capacity. Total expenditure on these projects will run into the many millions of dollars.

Complete production figures for 1959 are not yet

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available but reports up to the end of the third quarter reveal major increases in most divisions.

Petroleum production to the end of September was 97,640,281 barrels, 16.5% higher than the corresponding period of 1958. Value of crude increased nearly 10% to $232,365,592. Natural gas production was up 20.4% to 145,887,447 mcf in the same period. Natural gasoline and naptha output jumped 53.5% to 1,027,175 barrels while value of sales increased 44.5% to $2,811,367.

Production of coal during the first 10 months of 1959 was 5.8% higher at 1,867,701 tons with value increasing 7.5% at $9,503,279. Sales of cement products totalled $9,236,716, an 8.7% increase, while output increased 6.6% at 3,438,953 barrels. Clay products sales jumped 38% to $3,121,514. Sulphur and butane showed production gains of more than 95% while propane production was up 67%.

The value of manufacturers' shipments during the first three quarters of 1959 totalled $638,898,000, a 7.6% increase over the corresponding 1958 period. Bank debits were 13.3% higher at $11,109,290,000; while bank clearings rose 10.3% to $8,432,649,690.

Wholesale trade showed a substantial 12% increase to $724,739,689 during the first 10 months of the year as compared with corresponding period of 1958. Also reflecting the increased prosperity of Albertans was the retail trade figure, up 6.2% to $955,447,000.

These preliminary figures for 1959 and the development of this period provide encouraging prospects for the Province of Alberta. The past decade has been one of tremendous expansion and Albertans are confident that this trend will carry well on into the 1960s.

## N. J. McKINNON

**Chairman of the Board and President of the Canadian Bank of Commerce, Toronto, Canada**

Conditions both in Canada and abroad suggest that we may expect a continuation of economic growth at a rate at least equal to, and probably exceeding, the postwar average. Consumer demand, capital expenditures, export trade and inventory position, all appear likely to be strong contributing factors in the coming year.

Neil John McKinnon

Consumer spending gave strong support to the economy over the past year, when the first significant gain in real per capita consumption since 1956 occurred. It fell short of the increase in disposable income, however, and the resulting high level of personal savings, and the rising level of personal income, should, therefore, give effect to potential consumer demand, which remains high. The 1959 shift in the direction of expenditures toward durables and services seems likely to continue. By the last quarter of 1959 capital investment expenditures were moving sharply upward, and the outlook for 1960 is that they may be slightly higher than in 1959, which was a good, though not record, year in this respect. Resource development, which has made such an important contribution to growth in Canada in recent years, is not normally greatly influenced by short-term developments. A number of well-distributed long-range projects are at present either well under way or in an advanced stage of planning. Emphasis in the gas and oil industries has shifted to a significant extent over the past year or two from the initial discovery and development stage to the processing and transportation stages, a pattern which seems likely to be maintained in the coming year. The exploitation of other sources of energy, particularly hydroelectric power, will be carried on actively, and access to mineral and other natural resources, both by road and rail, is steadily expanding. Further development of the extensive iron ore properties in Quebec and Labrador is being carried on vigorously, and work on the associated town sites and port facilities is well advanced.

Much of the excess industrial capacity resulting from the sharp increase in 1956 and 1957 is now being utilized, and there is growing evidence that portions of industry are entering a further expansionary phase, encouraged by an improvement in corporate profits.

Export trade has lately given indications of renewed vigor. Most of the increase has been in trade with the United States, but the burgeoning economies of the more industrialized countries of Europe and of Japan have recently created a more active demand from these areas for industrial raw materials. Prospects for our export trade are, however, heavily contingent on the still emerging patterns of the European Common Market and the Outer Seven. The mass markets which they represent, with all that this means in economies of scale, are in sharp contrast with our limited, though growing domestic market of 17 million.

Demand for both consumer and capital goods imports has been heavy during the past year, and seems likely to remain so in the months to come. Increased dividend payments to nonresidents and the increasing cost of servicing the external debt, point to a continuing heavy deficit balance on current account.

The tight credit conditions of the past year continue, although there is greater stability in the financial structure. There are indications that the Federal Government is aiming for a balanced budget in the next fiscal year, which should facilitate the placing of new corporate issues and, together with the increase in corporate profits, assist in the financing of new capital investment programs.

The strength and duration of the present upward phase in business will depend to a large extent on conditions in the United States. Over the longer term, the decade of the 'sixties seems likely to produce a global environment differing in many important respects from that of the 'fifties—an environment which will present not only new problems but also new opportunities.

## L. J. McGOWAN

**President, The Foundation Company of Canada Ltd.**

Against the background of natural resource development, industrial expansion and population growth, considerations respecting the economic future in Canada are heavily weighted on the optimistic side. Strong market conditions are certainly indicated. Along with these strong market conditions, industry generally, and the construction industry in particular, must expect continued stiff competition. The established Canadian contractors have shown themselves to be perfectly capable of measuring up to these competitive conditions. They have done this even in the face of two situations which place them at a disadvantage first, with respect to contracting organizations from outside Canada; and second, with respect to bidding against inexperienced contractors.

L. J. McGowan

The first disadvantage arises from a noticeable tendency among some foreign-based contracting organizations to "dump" their services on the unprotected Canadian construction market. This is "dumping" in the strictest economic sense as the evident returns from these dumped services cannot be consistent with the cost, in the foreign country, of providing them.

The second disadvantage is likely to be modified substantially in the coming year. Tight money should produce this improvement. Under this condition, inexperienced contractors who have been able to borrow their way into the business without having the knowledge necessary to prepare financially rational tenders will find the lending institutions less helpful than in the past. This should eliminate much of the destructive type of competition created by inexperienced contractors whose unrealistic bidding not only breaks them but also deprives an experienced contractor of a job for which he submitted a bid as low as business prudence would allow.

Overall, the stimulation given primary industry by the development of our natural resources and the westward expansion of secondary industry stand as bright features for construction and business generally in the coming year. The high cost of money and the difficulty of obtaining it may inhibit developments in some areas. However, the effect of this is likely to be more evident in careful selection of projects to be undertaken rather than in a marked overall retrenchment. Many requirements of a rapidly expanding population cannot economically be postponed—especially when the condition inspiring the postponement appears to be of indefinite duration.

## C. H. McLEAN

**President, British Columbia Telephone Co.**

The business outlook for British Columbia in the year 1960 is one of optimism, tempered by moderate concern over the factors which caused the economy of the Province to recover more slowly from the 1957-1958 recession than the other sections of Canada. It is expected that there will be a continuation of the recovery experienced during 1959, probably at a quickening pace, as it is hoped that wage demands will be moderate and the labor situation, therefore, more stable.

C. H. McLean

In the past, the economy of British Columbia has been inclined to lead Canada. This was due to the wealth of the resources in the Province, with the result that recessions have been later in developing and less severe and recovery has, therefore, been quicker. However, British Columbia's recovery from the 1957-1958 recession deviated from this pattern due to the strikes and generally unsettled labor conditions which plagued British Columbia during that time.

This restraint on British Columbia's recovery has been very evident in the competition for export markets, where rising prices caused by high wage costs tend to price British Columbia's products out of these markets. In recent years the labor strife in British Columbia has also had its effect in the reluctance of secondary industries to settle in this Province with its consequent effect on population growth.

Construction is expected to be down, particularly residential, but the long-term view in this phase of British Columbia's economy is likely to be good due to the expected power development in the Province.

Development in the primary industries will, of course, depend on export markets but, with the hoped for moderation in wage demands, these are expected to be favorable. Existing secondary industries should enjoy a good year, but additional development in this field will also depend on stabilization of labor conditions.

In summary, British Columbia has the potential to resume the rate of increase in economic and industrial development that was being experienced prior to the recent recession and, provided that high wages and unsettled labor conditions do not again disturb the situation, 1960 should be a relatively good year and could be the recommencement of an era of renewed prosperity.

## A. H. MEADOWS

**President, Fargo Oils Ltd.**

Two gas discoveries in Northeastern British Columbia, completed early last spring, have stimulated the imagination of Canadian oil men. "Time" Magazine, in its April 13 Canadian issue, said that according to rumors, a well at Kotcho Lake was "flowing at 3 billion cubic feet a day—nearly twice as much as the initial flow of the Shell-British American Berland River in Alberta." Back in September, 1958, "Time" had called the Shell-B. A. well "the world's biggest gasser."

A. H. Meadows

Although the volume of gas cited by the article would be hard to justify from a precise engineering standpoint, there is no doubt about the immensity. Flowing from a porous Devonian reef in 176,729-acre Permit No. 311, the Kotcho Lake well was actually completed for 5.4 million cubic feet daily through a 20/64-inch choke. What was significant to oilmen was the virtually imperceptible drop from shut-in pressure to flowing pressure. Careful analysis of the test suggests that there may be a lot of truth in a comment made by one of our engineers that an accurate estimate of **calculated** open flow potential is virtually impossible. Another well comparable in size, was completed in the Petitot River area 60 miles northeast of Kotcho Lake. Estimates of open flow potential were for something over 160 million cubic feet daily.

The facts, figures and rumors are repeated here to support our conviction that immense gas reserves await discovery and ultimate markets. But what about demand? And what about transmission facilities?

Demand, we believe, will grow rapidly for two reasons. First, the immediate spur will come from the U. S.—particularly the Pacific Northwest and California, where Canadian gas is already flowing in modest quantities. But the real growth in demand will come from Canada itself. Economists tell us that the expansion rate in Canada will be at least double the U. S. rate over the next 10 to 20 years.

Transportation is a direct function of the supply-demand equation. On the supply side, there are currently drilling—or about to be spudded—some 30 exploratory wells within a hundred mile radius of Ft. Nelson. Because of weather conditions and peculiarities of the terrain, these wells must be completed before the spring thaw. Based upon last year's results—and assumptions of a continuing trend—the discovery rate should be good. By early summer of this year, we feel that substantial enough gas reserves will have been discovered to trigger the planning of moderate pipeline construction to begin sometime in 1961. This would specifically include an extension of a line from the Fort St. John area. Perhaps by 1965 a tie-in with Eastern Canadian markets could become a reality.

In spite of the depressed state of affairs existing in the U. S. and Canadian oil producing industry, there is probably just cause for cautious optimism. The problem of over-supply has been well advertised and should be no secret to investors generally. The future of the North American oil producer may not be the bright thing it was thought to be 10 years ago, but stock prices last year seemed to be a warning of disaster. Most oil stocks are ridiculously low, and I am absolutely sure that the industry does **not** face disaster! Quite the contrary. It is our feeling that the current set of problems presents both a challenge and an opportunity for the efficient operator. History, we feel, will record 1960 as a year of consolidation, providing the foundation for the second major period of expansion.

In short, any way you look at it, 1960 will be an exciting year—and much better than 1959.

## E. GEORGE MESCHI

**Executive Vice-President, Scurry-Rainbow Oil Ltd.**

The year 1959 was one of great industrial achievement in Canada, with record production and employment. In the year 1960, further gains are anticipated. With its sound currency, presently at a premium over the American dollar, a stable political outlook, an industrious and fast-growing population, Canada continues to attract new sources of capital for expansion and development of its industrial and natural resources.

The petroleum industry, although faced with proration and the problem of foreign imports, continues to witness record competitive bidding for potential and proven oil properties by majors and independents alike, which indicates their long-range confidence in the Canadian oil outlook. Wildcatters, seeking new sources of oil, are currently drilling in the remote corners of Alberta, British Columbia, and beyond in the Northwest Territories. With the present interest and the new methods developed for northern exploration, we may even expect activity in the Arctic Ocean area during the coming year.

While Canadian production is presently capable of almost meeting the domestic requirements, foreign imports, particularly from Venezuelan sources, continues to restrict domestic production to less than half of its possible potential. To overcome this situation and to help domestic producers, the Borden Commission on Energy Resources in Canada has recommended that the oil industry find markets for an additional 250,000 barrels of oil per day for Canadian production by the end of this year. We may expect that industry will cooperate

and exert every effort to meet this objective and thereby avoid further government action.

The growing demand on the part of the American consumer for Canadian gas has been highlighted by the most recent U. S. Federal Power Commission's approval of several export proposals, subject to concurrence on the part of the Canadian Board of Energy Resources. A favorable ruling is expected; however, the question of pricing may temporarily delay the projected schedule for gas export. The Canadian gas industry is presently poised on the threshold of a period of rapid expansion with consequent benefits to those companies strategically located and soundly financed.

While the long-range outlook for both production of oil and natural gas must be regarded as favorable, serious consideration must be given to adverse factors such as the question of price, competition from imports and the ever present question of government regulation. Then, the problem of "tight money" is acute today and may act as a temporary brake in any attainment of industry's immediate goals.

If we can restrain the tide of inflation and the consequent rise in the cost of production so that we remain competitive in world markets, then Canadian industry may well mark 1960 as the banner year in peacetime history. We may be sure that the petroleum industry of Canada will be in the forefront of those key industries that will help the Canadian economy achieve this objective.

### CLIFFORD W. MICHEL

**Chairman, Dome Mines Ltd.**

The outlook for profits for the gold mining industry of Canada for 1960 is one of relative stability. While operating costs, including wages, will no doubt continue the upward creep, induced by inflation, the increased productivity of the work-force and the continued introduction of cost-saving methods and equipment should act as an offset with the result that final net income in general should not differ materially from that of 1959.

Clifford W. Michel

The industry profit margins are affected directly by the relationship of the Canadian dollar to that of the U. S. dollar. The present premium of the Canadian dollar is approximately 5% above the U. S., which results in a 5% reduction from the $35 U. S. price per ounce of gold. Clearly this 5% comes directly off the profit margin and out of net profits. Any movement in the direction of parity by the Canadian dollar as against the U. S. dollar would clearly be helpful in maintaining profit margins. The current premium at 5% is in the upper portion of the range over which the exchange has fluctuated for many years, and it is conceivable that with the continuing deficit in Canada's trade with the U. S., a downward movement in exchange could set in at any time to the advantage of the industry.

Despite the continuing drain on the U. S. gold reserves, which declined further by approximately $2 billion in 1959 to a level of approximately $19 billion, the U. S. Treasury still stands firm in its conviction that the price of gold should not be increased. With foreign claims against these reserves continuing to rise, the question arises in the minds of many whether steps will not have to be taken either to correct the U. S. balance of payments, or if such measures fail, whether the price of gold might not have to be increased to reflect the inflation that is taking place throughout the world.

### ROBERT H. MORSE III

**President, The Canadian Fairbanks-Morse Co. Ltd.**

During 1959 the Canadian economy made a rapid and broad recovery from the 1957-58 recession.

As in all recovery periods some segments of the economy reacted more rapidly and vigorously than others. Purchases of capital equipment such as machine tools, power plant equipment and mechanical products used in the industrial process has resumed and is an indication that Canada will begin 1960 with a strong and healthy economy.

Robert H. Morse, III

Particular attention must, of course, be paid to present higher levels of interest and restricted credit conditions which have already affected residential construction. This situation may, in time, affect sales of consumer products related to this segment of the economy. It is probable that this condition will last throughout 1960, but I believe that the Canadian economy will adjust quickly to the higher cost of money. Most economists of my acquaintance carefully edge their economic predictions. For example, few forecasters predicted the change in monetary conditions which developed in Canada during the last quarter of 1959.

As a business executive, I can only give you my opinion which is apt to be far less accurate than the skilled professional. Subject to the usual qualifications, however, it is my opinion that 1960 can be a good year for Canadian business. In such an atmosphere it will be difficult to keep the cost of living from edging upward. Increased employment and selective pressures for price adjustments are a probability during the coming year.

In summary, I believe that the Canadian Gross National Product for 1960 should be approximately $36 billion, thus continuing Canada's long-time growth and expansion.

### D. M. MORRISON

**President, Transmountain Oil Pipe Line Company**

Leading businessmen in Canada have been almost unanimous in expressing the view that 1960 will be a better year than 1959, which itself was an excellent one in spite of interruptions due to strikes and labor unrest. I concur in this view. Furthermore, both the Minister of Trade and Commerce in Ottawa and the British Columbia Minister of Industrial Development, Trade & Commerce, have given out optimistic statements in which the official facts and figures are most impressive. With an anticipated lull in the sphere of labor strife and assuming a settlement in the U. S. steel industry, Canadian production may well reach an all-time high.

From Trans Mountain's immediate standpoint, business, which improved sufficiently in 1959 over the loss year 1958 to permit a modest dividend payment from current earnings, is expected to show a sizable increase in throughput and earnings in 1960 over 1959. System capacity is sufficient for several years' normal growth and no significant capital expenditures are planned for 1960.

Prosperity for Western Canadian oil and especially Trans Mountain depends on export. World surplus of oil, low tanker rates and premium Canadian dollar have combined to cut back exports since Suez. Although the dollar may return to par or even go below, the two former conditions will no doubt persist for some time. Export of oil, especially to the Puget Sound area, will depend on how effectively the international oil companies implement the recommendation of the Borden Report. A modified U. S. imports program classifying Canadian oil as domestic supply is reducing West Coast tanker imports and it is hoped that Canadian deliveries to Puget Sound will increase accordingly.

### R. S. MUNN

**President, Burns & Co., Ltd.**

Prospects for the livestock industry in Canada do not appear quite so promising in 1960 as they were in 1959. While hog marketings in the year that has just closed were expected to exceed those of the previous year, the increase of 37% was greater than anticipated. Domestic consumption of pork increased 23%, but this with exports was not sufficient to move the increased production. As a result, pork has been in heavy supply and in order to maintain the floor price, the Agricultural Stabilization Board has been obliged to purchase large quantities of frozen and canned product. Some of the frozen pork, and the greater part of the canned, is still owned by the government and no doubt will be difficult to market. It is evident that the government floor price was an incentive to production and the change in policy to deficiency payments may well reverse the trend. Since these payments will be limited to one hunded A. and B. hogs per producer per annum, the new policy will tend to discourage large operations.

R. S. Munn

With the clean up of vesicular exanthema disease of swine in the United States and the lifting of the last quarantine in New Jersey, removal of the embargo on pork entering Canada from South of the line in the near future seems inevitable. It is a factor that would affect production and price in Canada since currently hog and pork markets are much lower in the United States.

The opening of the United Kingdom pork market to the dollar area, with a modest quota of 56,000,000 pounds, provides a new outlet for North American surplus depending, of course, upon price. Freer trading, therefore, is indicated as far as pork is concerned with a lower price for Canadian producers augmented by deficiency payments.

Cattle herds in the United States have been building up and market prices have declined. This has resulted in a small import movement into Canada in contrast with heavy exports to the United States from Canada over the past two years. A two-way movement cross the border is a probability in 1960 and a moderate readjustment downward of beef prices is expected. With the prospects of lower prices for both hogs and cattle, the income of the livestock producer will be moderately lower. It seems reasonable, however, to expect, within a year or so, a better balance between supply and demand and this would tend to stabilize markets at a reasonable level.

### F. W. NICKS

**President, The Bank of Nova Scotia, Toronto, Ontario**

After a rather slow initial recovery from the recession of 1957-58, Canadian business expanded strongly in 1959. With production, employment, sales and profits all advancing to new record levels, the total national output of goods and services appears to have been between $34½ and $34¾ billion—a gain of a little less than 7% in value and about 5% in volume over 1958. The general expectation is that 1960 will see a further advance into new high ground.

F. William Nicks

Consumer spending, which along with inventory re-stocking by business provided the main stimulus to expansion in 1959, will continue to give support in the year ahead.

Moreover, business capital outlays turned upward during the course of 1959 and are now responding to the stimulus of rising sales and profits. Even though financial pressures are putting a brake on the capital spending of provinces and municipalities and house-building is on the decline, fixed capital expenditures in total have now become an expansive factor in the economy. How much further strength they develop in 1960 depends partly on whether the major projects for export of natural gas are approved in time for pipeline building to get under way on a large scale and even more on the degree to which expansionary developments in the United States stimulate the Canadian economy.

The amount of buoyancy in exports also depends to a considerable extent on how sharply U. S. business swings upward. During 1959, the total volume of Canadian ex-

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ports showed a modest increase, largely because of the strong pick-up in U. S. demand for industrial materials. With market conditions now much improved in Europe as well, indications are that the year-to-year advance will continue and it could be quite marked if conditions in the United States were to become vigorously expansive.

As is usual in a recovery period, Canada's merchandise imports have been rising strongly. Since the deficit on non-merchandise items has also continued to grow, the total deficit in current international transactions has widened to just about the 1957 record of $1.4 billion. So far the inflow of capital has been more than enough to fill the gap. Indeed it has kept the Canadian dollar at a premium of 5 to 5½% ever since the summer. A smaller proportion of the total capital inflow, however, has been in the customary forms of direct investment in foreign-controlled firms (mainly U. S.) and long-term borrowing in New York by Canadian provinces and municipalities, and the fact that much of the incoming capital in 1959 was in the form of special or short-term flows has made Canada more vulnerable to changes in money-market conditions or to any sudden shift in U. S. investor interest.

Both this fact and the substantial premium on the Canadian dollar are giving rise to a certain amount of concern in Canada. The premium adds to the difficulties of Canadian producers, both in export and domestic markets, particulary under the present highly competitive conditions. There is still a fair amount of unused capacity in the economy; and even in the midst of general expansion, a few specific industries, including coal and uranium, face serious problems of re-adjustment. Meanwhile, in the financial sphere, credit remains tight and there seems to be little prospect of an easing in monetary conditions in the near future.

## JOHN S. PROCTOR

**President, Imperial Bank of Canada, Toronto, Canada**

The most important contribution which Canada can make to a world of convertible and stable exchange rates is to use fiscal and monetary policy skillfully and vigorously to maintain a high level of employment and contain the forces of inflation. The current balance of payments problem of the United States suggests that this will be no easy task, especially if Canada plays the role in aiding the economic development of other countries which her great productive powers mark out for her in the eyes of other nations. In every year since 1950, with the exception of the year of the Suez crisis, 1957, other countries have been able to add to their gold and dollar balances through transactions with the United States. American net earnings on current account have not been large enough to cover the dollars being invested or spent abroad or given as foreign aid. By this situation the revival of European productive power and the rebuilding of their monetary reserves has been made possible. But such a gold drain cannot be tolerated by the United States indefinitely. On the other hand the very revival of European exporting power which American policy has stimulated makes the correction of this unbalanced situation by the growth of United States exports all the more difficult.


J. S. Proctor

In these circumstances the United States may find it hard to maintain present levels of foreign aid; other countries, Canada included, may now reasonably be expected to assume a greater share of this burden. Protectionist forces in the United States are likely to use the present situation to push their claims to relief from the mounting keeness of foreign import competition. To solve such balance of payments problems mainly by trade restriction would be a deplorable reversal of the attack on trade barriers so successfully carried through since the war. The nations need now to re-appraise their economic potentialities, their international responsibilities and the domestic policies required to carry them out without disrupting the relative stability of foreign exchange rates which has been achieved, and without reversing the whole trend to a multilateral trading world.

## A. ROSS POYNTZ

**President, The Imperial Life Assurance Co. of Canada**

Canadians will retain their position as the best insured nation in the world by purchasing approximately $6½ billion of new life insurance in 1960. This would achieve an all-time peak in the sale of new life insurance in Canada and would be more than triple the amount sold in 1950. Total life insurance in force in Canada should exceed $45 billion before the end of 1960.

Benefit payments from this vast coverage will likely exceed $500 million, two-thirds of which will be paid to living policyholders maintaining the ratio that has held for some years. Mortality experience has been relatively favorable through 1959 and it is likely that this trend will continue. Even so, beneficiaries will receive close to $200 million in death claim payments.


A. Ross Poyntz

More than 80 life insurance companies operate in Canada. These are of Canadian, British, U. S. and European origin. They have been a major factor in the investment field, and Canadian development in 1960 will continue to benefit from investment of policyholders' funds. Total assets of these companies will likely reach $8 billion in 1960. New investments acquired during the year will show a strong emphasis on bonds and debentures. The relatively high rates of interest which these securities provide will probably continue throughout the year, thus producing a very satisfactory medium of investment for the benefit of policyholders. The Canadian housing industry will probably continue to derive its main institutional support from life insurance companies. However, the new acquisition of mortgage loans might well show a lower ratio to total new investment than has been prevalent during the 1950's.

The control of the costs of operation will continue to be of major concern. Increasing attention will be paid to improvement of office methods leading to closer examination of the benefits of automation and an extension of machine use in the home offices.

Because of the very satisfactory investment returns which are producing rising net yields on the assets of the life insurance companies and continuation of favorable mortality experience, policyholders' dividends should be well maintained and will likely show a rising tendecy.

Nineteen sixty should be another year of very satisfactory growth with the confirmation of the merits of life insurance through increasing benefit payments.

## L. B. RAMSEY

**President, Belding-Corticelli Ltd.**

I believe that the year 1960 will see the greatest business activity in Canada of the last decade, and that total sales of our textile manufacturing industry may reach a ten-year high, but unfortunately it is very doubtful if we will have a corresponding increase in profits. Our company, producing such things as threads, braids, tapes, laces, elastics, ribbons, women's hosiery, women's and children's knitted outerwear is, in common with other units of the Canadian Primary Textile Industry, and in fact all consumer goods manufacturers suffering from two major handicaps. The first is our close proximity to a country with ten times our population, and the second the necessity of finding markets for our surpluses of agricultural and forest products, and in consequence the decision of our Government to grant Japan "most favored nation" status because they are large buyers of these products. To elaborate on the above difficulties—a very large percentage of our population visit the United States at least once a year and, naturally, they do some shopping. In addition, the leading American magazines have a very large circulation in Canada and so most Canadians are exposed to the attractive advertising of the myriads of articles manufactured in that country, which results in a demand on the Canadian manufacturers to supply an equally wide range of choice. In consequence our Textile plants try to make too many lines, styles, shades, etc., resulting in short runs and small lots, with inevitable high costs. In addition the U. S. Textile Industry, up to this year, has suffered from a condition of over-capacity, similar to that prevailing here, and Canada has been a very convenient market wherein to dispose of surpluses.


L. B. Ramsey

Manufactured textile imports from the U.S.A. grew from a value of $15.5 million in 1939 to $114 million in 1955 and no doubt have increased considerably since then.

According to the report issued two years ago by the Royal Comimssion on Canada's Economic Prospects, the present level of the Canadian Tariff is lower than it has been for nearly 80 years, which accounts to a large extent for the above great increase in imports from the U.S.A. Actually Canada, with a population of only 17 million, imports more fully manufactured goods than any country in the world—in 1956 the total was $4,400 million which comes to about $268.00 for every man, woman and child. The equivalent per capita figures covering imports to the U.S.A. are approximately $26.00 and for Great Britain $44.00.

To illustrate the impact of imports of Japanese textiles on our domestic industry I give the following comparisons.

**Braided Elastics**

| | Canadian Shipments (lbs.) | Japanese Imports (lbs.) | Japanese % of Canadian Shipments |
|---|---|---|---|
| 1953 | 448,000 | 30,000 | 7% |
| 1954 | 449,000 | 41,000 | 9 |
| 1955 | 437,000 | 118,000 | 27 |
| 1956 | 444,000 | 203,000 | 47 |
| 1957 | 450,000 | 309,000 | 69 |
| 1958 | 460,000 | 455,000 | 99 |
| 1959 | Estimated | 559,000 | |

Our company is, we believe, the largest producer of braided elastics in Canada, so the importance to us of having reasonable quotas agreed to by Japan is not hard to realize.

I could give figures of many lines of textiles where Japanese penetration in the last two or three years is almost on a take-over basis, so it is not necessary to labor the point that if Japanese dumping of textiles in Canada continued at the same rate there would be very little of some branches of our textile industry left here in five years' time.

As the Canadian Primary Textile Industry employs about 80,000 workers and is the principal employer of labor in dozens of small towns in Quebec and Ontario, we are confident that this will not take place and that, probably in the near future, reasonable quotas will be agreed upon.

I based my optimistic note in the first paragraph of this article on my belief in the probability of reaching an agreement on quotas with the Japanese during the year, on the fact that the United States Textile Industry has apparently almost overcome its condition of over-capacity and is, we hope, not so interested in exporting to this country at low prices; also on the fact that the Canadian population is growing at a rate around 400,000 a year, and that there has been a shrinkage of textile capacity here ever since 1951.

However, with low tariffs, and world-wide increase in textile manufacturing technological advancement, we will be obliged to meet this import competition so that I feel, although sales should increase substantially, only the most efficient operators will materially increase their profits.

## J. H. RANAHAN

**President, Industrial Acceptance Corp. Ltd.**

There seems to be every reason to be optimistic about the business outlook for 1960. The Canadian economy should continue to expand and the prospects are encouraging for those classes of consumer durable and capital goods usually financed through the purchase credit facilities of the sales finance industry.

The prospect for employment, the principal basic factor which governs consumer buying, is one that indicates a high level. Consumer resources in other respects, both in the way of savings and credit, would seem to assure the means through which a volume of goods may be purchased—certainly equal to 1959 and probably somewhat better.


J. H. Ranahan

The principal sources of purchase credit for the consumer, the kind of credit used exclusively by consumers to finance the purchase of durable goods, are sales finance companies, department stores and retail dealers. The utilization of purchase credit facilities by consumers, as reflected by the amount of outstandings, increased by approximately $40 million, or 2½%, during the year ended Sept. 30, 1959. By comparison, total consumer credit outstanding, which includes personal "Loans," used for a wide variety of purposes other than to buy durable goods, increased by $470 million, or 14%, during the same period.

Since purchase credit outstandings have expanded at a slower rate than consumer credit generally, and also at a slower rate than the total expenditures on consumer durables, it seems logical that these outstandings can be reasonably expanded, thus contributing to the strength of the economy in 1960.

Sales finance companies also provide purchase credit for business and industry as well as for the individual consumer, and the industry finances a wide range of commercial and industrial equipment and machinery. Outstandings in this category increased by about $55 million, or 20%, during the year ended Sept. 30, 1959. Industrial credit is used by companies and individual entrepreneurs to acquire capital goods, such as machinery, construction and road building equipment, materials handling equipment, motor trucks and highway trailers, doctors' and dentists' equipment, printing equipment and many others. For this reason, its increasing use is important to the economy as a whole.

Again, it can be said that the outstanding credit in the industrial field has not been unduly expanded and the available facilities can be expanded to lend important support to the many industrial lines of durable goods sold through this medium.

## S. J. RANDALL

**President & Managing Director, General Steel Wares Limited**

Since the merger of The Easy Washing Machine Company Limited into General Steel Wares, September, 1958, a great deal of reorganization work was necessary in 1959 to merge the companies manufacturing sales and distribution programs. This has worked out very harmoniously and General Steel Wares will experience one of the highest sales records in the company's history. This was made possible through the expenditure of many hundreds of thousands of dollars in capital equipment, rearrangements of plants and intensified advertising and promotional plans on all product lines. Many new products were added to the company's various lines throughout the year and many more are being readied for production in the early part of 1960. We feel, therefore, that the planning for the future started in the early part of 1959 and will carry on throughout 1960 and have every confidence that we can achieve a 10 to 12% increase in sales in the New Year.


Stanley J. Randall

In Canada, the U. S. steel strike of 1959 did not too seriously affect the Canadian economy except that heavier inventories of steel carried throughout the year necessitated higher investment at inventories in particular and, of course, greater bank borrowings. Canadian industry is still faced with the tight money situation which could retard somewhat capital expenditure for 1960 which undoubtedly would retard production and sales forecast.

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# "Living Within Our Means"

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excessive and unsustainable rate of capital expenditure since the war has not only contributed to the unstable cycle of short-lived boom followed by recession but has also been responsible for a growing deficit in our international balance of payments, a large excess of imports of goods and services over our exports, increasing reliance on foreign resources to finance (directly or indirectly) both capital projects and consumption, and a great increase in our foreign debt and in the annual burden of debt charges. It has also produced a higher level of interest rates than might otherwise have appeared, and recurrent periods of tight money and difficulties in the field of bank loans and bond markets.

A further lesson of many countries since the war, as well as the lesson of our own experience, is that substantial and steady employment and growth cannot be achieved and continued without price stability and public confidence that price stability will be maintained.

The prevention of inflation is essential for the maintenance of steady growth at the maximum rate that can be sustained without the excesses that lead down the path to dissipation of foreign currency reserves, and the incurring of such a degree of foreign debt as to produce in the end a foreign-exchange and foreign-trade crisis which would seriously harm a country's economic structure for years following.

As a nation we cannot choose between price stability and growth, we must aim at both. Inflation, and the attempt to expand at an excessive rate which produces inflation, are not an effective means of overcoming unemployment, because inflation in the end will create more unemployment than it cures.

### Must Prevent Inflation

There are not one but several major requirements for the prevention of inflation, the maintenance of sound and steady growth and the prevention or mitigation of fluctuations in the level of unemployment. One requirement, certainly, is the maintenance of a sound monetary policy, which means restraint in the process of expanding the stock of money. Another is moderation in spending and borrowing by governments and public bodies. A third is the development and maintenance of appropriate fiscal policies and public policies of various other kinds designed to promote sound expansion in private business and discourage excessive spending throughout the economy.

In any country the central bank has the power to encourage an increase in the money supply. By buying government securities in the market it places additional cash in the hands of the sellers, and their deposits increase the cash reserves and therefore the lending capacity of the chartered banks.

Clearly the central bank must see to it that there is enough money in circulation to facilitate the daily exchange of goods and services, the daily volume of payments that must be made, whether by notes or by cheques transferring claims to bank deposits. In the process, the central bank must also see to it that the commercial banks have sufficient lending power to be able to facilitate the essential short-term credit needs of businesses and individuals in order to enable economic activity to continue on the highest level that can be consistently maintained without promoting inflation. But beyond this necessary creation and expansion of money and credit, it must be the duty of the central bank to exercise restraint in its own activities, restraint on its own expansionary potential.

### Deplores Money Supply Growth Pace

The greater the amount of direct monetary expansion by the central bank, the greater will be the capacity of the commercial banks to increase their loans and investments and thereby put additional spending power into the hands of would-be spenders. But increasing the quantity of money and credit does not of itself increase the supply of goods and services. There is no monetary manipulation or magic trick that can achieve this. Beyond some point, further increases in the total supply of money and credit simply provide fuel for inflation and actually retard and hamper the growth of efficient production.

In Canada the total supply of money rose rapidly—too rapidly—in the year 1955 and the first half of 1956, and thereafter showed little change until the economic boom passed its peak and started downwards in the late summer of 1957. In the latter part of 1957 and the first three-quarters of 1958, for reasons which I have discussed at length elsewhere, the supply of money again increased very rapidly and to a substantial degree. In the process the chartered banks were put in a position to expand their loans or investments as might be required to meet economic needs for a long time ahead. In the early months of this period when the demand for commercial credit was not large and when the Federal Government was running a large cash deficit, the chartered banks put the increase in their lending capacity entirely into the purchase of Government of Canada securities. From early October, 1958 until August, 1959, the chartered banks sold off the greater part of the government securities so purchased and expanded greatly their volume of commercial loans, personal loans, mortgage investments and other investments.

Since August, 1959, the volume of commercial loans has declined. The banks are in a position now to facilitate a moderate degree of expansion in the total volume of their commercial loans on a prudent, selective basis, particularly for those enterprises which are unable to obtain necessary financing from other sources. Some other categories of loans and investments acquired in 1958 and early 1959 may well decline in 1960 through repayments and maturities and help make room for such further expansion in commercial loans as may appear to be sound and necessary.

### Outlines Non-Monetary Measures Required

The maintenance of monetary stability is by no means sufficient in itself to assure sound growth or prevent inflation. The prevention of inflation and the inevitably succeeding recession — the effective mitigation of fluctuations in the level of employment, production and prices—requires action in many other fields besides monetary policy. For example, all levels of government can assist by holding down their spending programs, including lending programs, during the buoyant phase of private business expenditures. Taxation policy can also make an important contribution. The anti-cyclical modulation of government spending and taxing can have the double effect both of moderating the fluctuations in private business itself—for some expansion programs of private business are directly stimulated by government programs—and of offsetting to some degree those fluctuations in the private sector which are not directly so influenced.

There are other important requirements besides appropriate fiscal and monetary policies if an economy is to be able to sustain a high rate of economic growth with minimum fluctuations in prices and total employment. A tendency towards preoccupation with fiscal and monetary policy has perhaps resulted in not enough attention being given to the whole range of other factors affecting the basic efficiency, stability and adaptability of the economy, especially the degree of mobility of resources and the degree of competition, the conditions under which business operates, and the outlook and attitudes of business and the general public. No use of fiscal and monetary policy, no matter how inspired, can call forth good performance from an economy if the factors of production and distribution are not basically flexible and competitive. Here, too, public policies may have an important influence, either helpful or the reverse.

These requirements for policy apply to any country, to Canada no less than to the United States, the United Kingdom and other nations with free economies. In varying degrees all countries endeavor to follow expansion policies, high employment policies and anti-inflation policies, and obviously these must be harmonized if they are to be successful.

In Canada we have not only the usual cyclical problems, which are not entirely within our own control because of our high degree of dependence on conditions in foreign markets, but a further problem or cause of instability, namely, that the total demand on the part of all elements in the community for goods and services for all purposes, both for consumption and for the creation of new production facilities and government works and housing combined, has for some years been considerably greater than the amount which our own productive capacity can satisfy. This is a condition which most other industrialized countries in the North Atlantic community had to face in the postwar period but have by now largely overcome. In Canada it assumed major proportions five or six years ago and has grown since then. To a considerable extent these inflationary pressures have been temporarily suppressed or diverted through the medium of foreign borrowing by Canadian Governments and enterprises and the securing of capital from other forms of foreign investment in Canada, which have made possible the importation from other countries of a volume of goods and services greatly in excess of our exports of goods and services, to such degree as to fill most of the excessive demand in Canada for such goods and services.

### Five Years of Living Beyond Our Means

Put more bluntly, we have for at least five years been living beyond our means on a grand scale. Perhaps we have comforted ourselves with the thought that we were by this means increasing from year to year the total productive capacity of the Canadian economy by a sufficient extra margin to enable us before long to balance our foreign accounts, live within our annually expanding means, and even at some time begin to pay off our foreign debt. But this has not happened. Exports are rising but imports are rising faster. We are not producing ourselves out of our import deficit but are getting in deeper.

Some degree of reliance on foreign resources for some period of time may be justified at particular periods of a nation's economic development. This is particularly true of the really undeveloped countries which live close to the poverty level and find it virtually impossible to accumulate domestic savings and devote them to the expansion of productive facilities. It was perhaps also appropriate at times during the earlier stages of industrial development of a new

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Despite similar problems in the past year Canadian industry has experienced a very healthy increase in volume and there is no reason to feel the New Year will not be as good if not a great deal better than 1959.

We at General Steel Wares are confident that we will reach our sales objective plan for the New Year and are very optimistic with regard to the future growth of Canada and the industries in which we participate.

## HON. DUFF ROBLIN

**Premier of Manitoba,**
**Winnipeg, Manitoba, Canada**

Manitoba stands on the threshold of a brilliant era—an era that should see the culmination of development in the old settled regions and, with the opening of its north country, the removal of the last frontier. The year 1959 marked continued progress for manufacturing in Manitoba. Gross value of production achieved a new record, estimated at $744 million, more than 10% above the 1958 value of $673 million. Fifty-three new manufacturing firms began operations during the year bringing the total in the province to 1,700. Capital expenditure was up 10% at an estimated $599 million.


Duff Roblin

This expansion and development is expected to continue at an accelerated rate and has received additional encouragement with the formation of the Manitoba Development Fund. This organization is an incorporated agency of the province whose purpose is to provide financial assistance to new and existing manufacturing industries, tourist and recreation facilities and community development corporations. At the year end it had been in operation 10 months and authorized loans approached $2½ million.

Northern development and expansion over both the long and short-term promises to be spectacular.

Well underway, the $125 million International Nickel project at Thompson is proceeding on schedule and is due to be in production this year, providing Manitoba with the world's second largest nickel mine. Complementary to the Thompson project is the $50 million, province-financed hydro-electric plant at nearby Kelsey. This plant will produce energy surplus to Inco requirements which will be available for additional industry.

The Manitoba Government has well rounded program for the development of the north, based largely on the stimulation of industries derived from the region's natural resources and has set up the Manitoba Development Authority to co-ordinate industrial development generally with particular reference to the north.

Transportation is one of the most important factors influencing economic development in this area. Investigation is being made of the possibilities of instituting a more favorable freight rate structure which would facilitate the development of the natural resources of this region.

A joint federal-provincial "roads to resources" program will open up for development a number of new areas with promising resources. Construction has begun and will extend over the next five to seven years. Two roads that will be very important in this area are the Simonhouse-Wekusko-Thompson road and one from Gypsumville via Grand Rapids to connect with it and to be extended later to the God's Lake area.

It is expected that more will be spent on the development of northern Manitoba in the next quarter century than any other area of similar size in the world. Predictions of investments in exploration, industrial facilities and developments of all kinds during the next 10 years in the area have been as high as $500 million.

Proper development of the northern treasure house of natural wealth will create opportunities seldom encountered in this modern age.

## R. M. SALE

**President, Ford Motor Company of Canada, Limited**

The Canadian automobile industry appears well on its way to experiencing the most productive period in its history.

Estimates indicate that new passenger car sales in Canada for 1959 will hit a record-breaking high of some 425,000 units, compared with 376,723 units in 1958. There are strong indications that sales in 1960 will exceed this year's total. Not since 1956, the previous record sales year, has the industry's passenger car output exceeded the 400,000-unit mark.


R. M. Sale

Recessionary elements which slowed the economy in 1958 appear behind us. During the past nine months personal incomes, employment and population in Canada increased substantially. The increases reflected themselves in new motor vehicle sales which, for the first nine months of this year, were 16% above the same period a year ago. General optimism in economic prospects for Canada is further strengthened by forecasts of stepped-up export activity from this country. Another indicator of prospects for 1960 is the substantial increase in capital investment anticipated over the next 12 months.

An important development in our industry this year was the introduction of the new compact cars. They are the result of several years' study by the manufacturers. In the face of high material and labor costs in North America, the styling, engineering and price of the new compacts represent a significant achievement.

## A. G. SAMPSON

**President, Chateau-Gai Wines**

At the latest annual meeting of shareholders of Chateau-Gai Wines Limited, we reported that our company had completed the best year in its 65-year history. Both sales and profits reached new peaks. The most encouraging aspect of this achievement is that it is based, not on short-term phenomena, but on basic developments in the Canadian economy. Among these basic developments, population growth and the very important role played by immigration in that growth have been of particular significance —not only to Chateau-Gai, but also to the Canadian wine industry as a whole.


A. G. Sampson

Of the one million "New Canadians" a very large percentage have come from the wine producing and wine drinking countries of the world. These people have discovered that the good Canadian wines are easily superior to much of the wine consumed in their former homelands. As a result, they have not only become consumers of good Canadian wines themselves, they have also stimulated the native Canadian trend toward the use of our wines as a gracious feature of a good meal.

Over the years, our company has invested large amounts of time and money in research and development aimed at tailoring our products to Canadian tastes. With the help of the Ontario Government's Vineland Horticultural Station, for instance, and the wholehearted cooperation of the independent grape growers in the province, Chateau-Gai has established, in Canada, the special hybrid European grapes necessary for the production of the fine wines success in the Canadian market demands.

In common with companies in industries throughout Canada that have applied their own resources and knowledge to the development of products ideally suited to Canadian tastes and requirements, we are now realizing substantial benefits from the rapid growth of the market in Canada.

This development, already an important factor in the Canadian economy, is destined to become even more important; the companies that have integrated themselves, their products, and their services with Canada will realize substantial returns on their past efforts in this area. On the other hand, those companies that have been content to let their associates in other countries do the development work, are not likely to have products or services as well conditioned to Canadian requirements in this expanded market. It is my opinion that their share of this larger Canadian market will be less than that of those companies who have tailored their operations specifically to tastes and conditions in Canada.

Expansion, of course, usually involves increased costs of some of the factors of production. We expect both labor and material costs will be up in 1960. We believe, however, that our selling prices will remain the same.

Competition from countries whose currency has a low value in terms of the Canadian dollar poses difficulties in pricing our goods even in Canada. Producers in these countries are in a position to recover increased costs at home through profits on the rate of exchange rather than higher prices on the goods exported to Canada.

We anticipate, however, that the favorable conditions mentioned above will enable us to meet our higher costs by doing an increased volume of business in Canada.

## E. G. SILVERWOOD

**President, Silverwood Dairies, Ltd.**

In spite of an exceptionally dry and hot summer in Eastern Canada, our nation's milk production in 1959 will no doubt exceed the record 18 billion pounds produced in 1958. If so, this will be the eighth consecutive year of increased production. With improving herds and more efficiency on our farms there is every indication that next year milk production will set another record.


E. Gordon Silverwood

No review of the dairy industry can omit our butter problem, as more milk is still utilized as butter than by any other outlet. On May 1, 1958, the Government raised the support price of butter by 6 cents a pound. That year sales dropped by 10 million pounds. Last year sales have again dropped by a further 9 million pounds. Needless to say the sale of the substitute product has increased by a like amount—in fact by 21 million pounds in the same period and this year sale of margarine will be equivalent to better than half our total domestic sale of butter. The Government's intention is, of course, to assist the cream producer. Their present policy, however, is driving the public away from butter and increasing the sale of the much cheaper competitive product. Many thoughtful people interested in the dairy industry are wondering just how long such a policy will be permitted to continue. In spite of lower production and the sale of some 13 million pounds to the United Kingdom, butter stocks are at their highest level for this period of the year since price supports were introduced. Recently the Canadian Association of Consumers protested that by the recent butter sale to the United Kingdom, Canadian taxpayers were subsidizing the butter purchases of the United Kingdom consumer to the extent of some 19 cents a pound and felt it should be made available to Canadians at this price.

A year ago we reported that huge stocks of milk powder were a problem for the dairy industry. Support prices had encouraged production so that in 1958 it exceeded 1957 production by 66 million pounds. To divert milk from powder, support prices were reduced by one-third on May 1, last, and discontinued on Sept. 30. By the end of October, production had dropped by 11 million pounds and inventories were 52 million pounds less than at the same date in 1958, and no longer a problem.

A year ago we predicted that the operation of the formula under the Milk Industry Act in Ontario, which determines the price at the farm for milk for fluid purposes would result in a further 19 cents per cwt. jump sometime during the year. This took place on Oct. 1, resulting in an increase to the consumer, the first since Oct. 1, 1957. I would hope that there would be no increase in 1960. Because such an increase is not applicable to all products and sizes of containers and in all situations, the distributor's share is invariably less than ½ cent per quart to start with. Of course, increased cost of labor, supplies, equipment, etc. absorbed in the past two years is more than equivalent to his increased spread. Therefore, only with constantly increased volume and the utmost efficiency can the distributor hope to remain in business.

There has been a great deal of discussion lately about socialistic compulsory marketing schemes, including a suggestion of the purchase of all milk for either manufacturing or fluid purposes by a Government Board, and the pooling or blending of the price to the farmer. As one closely associated for years with milk requirements for both purposes, I cannot see how such a scheme could possibly be in the best interest of the producers now supplying our fluid milk requirements. In principle I am opposed to any suggestion of augmenting the public payroll by adding civil servants to perform functions at present carried out by private industry. I would question if bureaucracy supported by large check-off funds would be as efficient as private enterprise.

Last summer in the East was the hottest for many years and the week-end weather was as nice as one could hope for. As a result ice cream sales were abnormally high and can hardly be expected to be as good in 1960.

Our own company expects to benefit from the favorable economic conditions that are being predicted on all sides for 1960. We will shortly be operating in our fine new milk processing plant on Warden Avenue in Scarborough. We anticipate that our expenditures on capital assets in the year ahead will be not less than they were in 1959.

## J. HERBERT SMITH, D.Sc.

**President, Canadian General Electric Company Limited**

A year ago, the Canadian economy has passed through a mild recession and there was evidence of increasing strength in the general business picture. The emergence from the recession was aided by increases in consumer expenditures and government spending and, for a time, by an unusual rise in residential construction.


J. Herbert Smith

While these factors had beneficial effects on business levels in some sectors of the electrical manufacturing industry, they were offset to a degree by a continued decline in business fixed capital expenditures and a consequent reduction in equipment ordered for utilities and heavy industry. This latter factor has weighed heavily on Canadian electrical manufacturers. As a reflection of this, preliminary estimates indicate that electrical products shipped by Canadian manufacturers in 1959 will reach a value of approximately $1,100,000,000, a decline of 2% from 1958's total.

This is a continuation of a trend which has been in evidence for the past four years. In 1956, the peak year of activity for Canadian electrical manufacturers, shipments of products amounted to $1,229,900,000. Since then, shipments have steadily declined in value each year. In 1957, the value of goods shipped was $1,225,-213,000, and in 1958 $1,121,878,000.

This decline has occurred despite strenuous efforts on the part of Canadian electrical manufacturers to strengthen their position in a growing market and a rising economy. Import competition and other factors have continued to take their toll, and are reflected both in lowered value of shipments and in declining employment in the industry.

From a peak level of 83,296 in 1956, the number of people gainfully employed in the industry dropped to 81,272 in 1957 and declined further to 72,643 in 1958. However, it is estimated that this rate of employment will remain above 70,000 when the 1959 census of industry is taken.

In contrast to the declining level of activity in electrical manufacturing, Gross National Product in Canada has been rising progressively. From a level of $30.6 billion in 1956, GNP rose to $31.8 billion in 1957, $32.5 billion in 1958, and is expected to reach a peak level of $34.5 billion in 1959.

This seeming paradox of an aggressive and cost-conscious industry experiencing declining levels of output in a rising economy can be attributed largely to the cyclical decline in business capital spending which has occurred over the past two years. It is toward this market for heavy capital goods (called "apparatus") that much of the industry's productive capacity is oriented;

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# "Living Within Our Means"

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country, as, for example, in the United States in the 19th Century, and in Canada into the early 20th Century. It is scarcely true of Canada today, a country which is in many ways a highly developed economic entity, enjoying a standard of living generally thought to be second only to that of the United States.

The Canadian people and Canadian business enterprises are capable of a high rate of saving and do accumulate each year large new savings, which are available for investment in new productive facilities. The statistics indicate that in most years our rate of personal saving is somewhat less than in the United States, but our rate of total saving, by corporations, individuals and governments combined including the setting aside out of earnings of funds for depreciation, is considerably higher than in the United States.

Anything that can be done to encourage a reasonable increase in personal, governmental or other saving in Canada would obviously be a step in the right direction.

Probably the greater factor in our problem, however, has been an excessive degree of spending on capital facilities of all kinds (including housing) much greater in total than we were able to produce or at any rate willing to provide out of our own savings. The longer we cause or permit this excessive spending to operate, and to produce a correspondingly heavy surplus of imports over exports and a high annual rate of increase in our foreign debt, the more vulnerable and precarious does our position become.

The rate of new capital spending (both public and private) on physical works, plant and equipment in Canada in recent years has, according to the statistics, been considerably greater than in the United States—about 26% of Gross National Product as against 18%—but there does not appear to have been a correspondingly greater increase in the output of new goods and services by Canadians. We have absorbed, consumed or put to use a much greater volume of capital, without getting a commensurately greater rate of increase in production.

**Criticizes Nature of Capital Spending**

One reason may be that a larger proportion of our capital spending has gone into the development of facilities for our greater comfort and enjoyment, rather than into an increase in productive facilities.

It is evident also that through pursuing an excessive rate of growth, a quantity of business investment in new enterprises or for expansion has been undertaken in too much of a hurry, at high cost, in directions which perhaps should not have been exploited at all, or not until the following year or later years, with the result that a certain amount of capacity remains under-employed because it is in excess of market requirements, or was established before adequate markets could be developed, or is unable to operate at prices competitive with producers in other countries.

Clearly, not all capital spending contributes to sound growth, or to any growth. If we can afford out of our own resources capital spending that does not assist growth—that, at best, provides some desirable but not economically essential facility or service—well and good. But a rate of capital spending that requires large increases in foreign debt and that creates inflationary pressures and mis-allocation of economic resources, is clearly undesirable and harmful.

**Quotes Finance Minister's Views**

The Minister of Finance has urged that "we must all avoid doing those things which are likely to encourage a forced and excessive growth in spending." Similar sentiments have been expressed by Chancellors of Exchequers and Secretaries of Treasuries in many other countries, because it is in the national interest of any country to avoid such excesses.

In Canada, the Minister said of the Federal Government "Our aim . . . will be to avoid expenditures that are not strictly necessary now and to bring government revenues and expenditures into better balance." The Minister said that the provinces, municipalities and business would be assisted in meeting their borrowing problems by restricting Federal borrowing. The borrowing problems of provinces and municipalities would of course be much easier if these bodies reduced the magnitude of their borrowing as a result of restricting their own spending. There are also considerable differences among provinces and municipalities in their level of taxation and other revenues. Those that borrow the most may not be the best managed, the most frugal, or the most prudent.

At any rate, the fact is we have not increased our production commensurately with the increase in our spending. We have not overcome the factors making for a large continuing annual increase in our foreign debt. Our exports have increased, but our imports have increased more.

In addition to a large deficit in our merchandise trade, we also have a growing net deficit on non-merchandise items, such as freight and shipping, tourist expenditures and interest and dividends on our foreign borrowings and on foreign investments in our country. The excess of our total payments for these so-called invisible items, over our receipts of the same nature, continues to grow and is approaching the level of $1 billion per annum. Our merchandise trade, so far from being adequate to enable us to pay these costs, is itself also on the deficit side to the extent of about half a billion dollars a year.

**Sees Chronic Balance of Payments Deficit**

The development of a balance of payments deficit of this magnitude might be tolerable if it occurred under emergency and temporary conditions which it was clear could and would be rectified by policies being adopted for that purpose. A glance back over the Canadian balance of payments since the war shows that our situation is not temporary but is becoming chronic.

The last year in which we had a favorable balance of payments on current account was in 1952. Deficits of $400 million a year in 1953 and 1954 were followed by an increase to $700 million in 1955. The deficit almost doubled again in 1956, increased a bit more in 1957, declined moderately in 1958, increased again in 1959 perhaps to the 1956 level, and seems likely to increase in 1960 to a new record high figure of $1,500 million or more.

We have had for years, of course, a large deficit in our trade and payments with the United States. For a time it seemed possible that this would be largely balanced by a surplus in our trade and payments with the rest of the world. That surplus averaged over half a billion dollars a year in the early fifties but has declined every year without exception since 1952, virtually disappeared in 1958, has been converted into a deficit in 1959 and probably will be a bigger deficit in 1960.

In the field of merchandise trade an important item in our trade deficit has been the volume of investment-type goods imported, that is, machinery and equipment for use in construction or for the expansion of physical facilities in Canada. The peak in the importation of investment-type goods or capital goods appears to have been reached in 1956; imports of this type declined slightly in 1957, and substantially in 1958, showed a moderate increase in 1959 over 1958, and in 1960 are likely to approach if not reach the 1956 volume. Even without exceeding the level of four years ago, it is a high volume and symptomatic of capital spending at a rate which is greater than can be provided out of our own national savings.

But in addition to such imports of capital goods, a further consequence of the excessive aggregate pressure on Canadian resources has been a rapid expansion in the importation of consumer goods including, of course, parts and materials for further assembly or manufacture in Canada. These have risen every year but one in the past 10 years, and seem likely in 1960 to be at least 25% higher than in 1956 and more than double the 1950 level.

In other words, we are incurring foreign debt to pay for both a level of capital spending and a standard of comfort which are higher than would be justified by our own earning capacity.

**Would Reduce Capital Spending**

I have no doubt that our exports could be further increased and our imports could be reduced if we adopted a more moderate approach to capital spending in Canada.

If there were a substantial reduction in capital expenditures on the part of governments and business enterprises alike, and so in the demand for capital goods, imports of this character would be less.

Moreover, if so much of our own productive resources were not devoted to construction, more could be utilized in production for export and more could be devoted to production of various kinds of goods for the domestic market at competitive costs and thereby bring about a further reduction in the volume of imports.

It must be assumed that little could be done to reduce the net total of $1 billion a year which we must pay by way of interest and dividends and for other non-merchandise purposes over and above our receipts of the same character. (A possible reduction in the net bill for some items would probably be offset by some continuing increase in the amounts paid out by way of interest and dividends. We could, however, if we bring to an end the process of heavy foreign borrowings each year, greatly reduce the rate of increase in the annual burden of net payments of interest and dividends to foreigners).

If we were now to resolve to live within our means—which includes paying our of current income the heavy interest charges on past foreign borrowings—our merchandise balance would have to be rectified to the extent of $1.5 billion a year, either by increases in our exports or decreases in our imports or by a combination of increased exports and decreased imports.

**Explains Consequences of His Proposal**

Supposing we had been living within our means during the past five or six years, what would the difference in capital expenditures have been? This is a matter for conjecture and no doubt every person would have his own ideas on the subject. We must realize, however, that it would have meant that we would have built fewer houses and perhaps lower-cost houses (actually, new houses completed in the past five years exceeded net family formation, including immigration, by 250,000 units). This would have meant a smaller consequential expenditure on streets, sewers, etc. by municipalities. We would also have built fewer miles of new high-cost highways, and would have tried to finance more of various expenditures by governments and government enterprises out of revenue instead of out of borrowing. We would have had somewhat less in the way of natural resource development — (some obvious cases will occur to everyone)—would have needed less hydro electric development (particularly if some part of such development had to be financed out of increased revenues instead of borrowing) and would of course have had somewhat less spending on public buildings and other public facilities. In consequence of the lower level of capital expenditures in these more obvious fields, there would have been other sectors of private business which would not have expanded so much so soon.

It may be argued by some that a lower level of capital expenditures would not necessarily, considering the structure of our economy, have assured a balanced position in our international payments. Other conditions might have had to be different than they were if we had resolved to avoid further foreign borrowing on balance. But certainly a major essential would have been that capital expenditures should not have exceeded our capacity and willingness to provide for them out of our own savings out of income and production each year.

Not all capital expenditures, whether public or private, have in the past been necessary or productive. Some have been misdirected or premature. Some provided us with a higher standard of comfort or public amenities, which were of course good things to have but not at the expense of increasing our foreign debt.

**Not Needed to Maintain Full Employment**

It must be emphasized that the scale of capital spending need not be forced or permitted to rise at the rate of recent years in order to maintain total employment in Canada. Indeed, it must be obvious that the excess spending in Canada which forced a large excess of imports went to maintain employment outside Canada. Moreover, other countries with a more moderate rate of expansion have had just as good or better a record in regard to employment and unemployment. By attempting an excessive rate of expansion, we encouraged employment in particular fields of activity to rise to a level which could not be sustained and prevented other more stable types of activity from expanding their employment opportunities. This was not contributing to the maintenance of stable employment conditions. Our heavy reliance on capital spending and on the inflow of foreign capital has indeed complicated rather than assisted the task of achieving a sustained high level of employment.

Do we want to live within our means? Adjustment to a lower scale of total spending in the economy is obviously possible if we are resolved upon it. There is room for debate about methods and measures, but let us not exaggerate the difficulties that would be involved in making a

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and it is in this declining market that Canadian electrical manufacturers have been most vulnerable to the assault of producers in low wage rate countries overseas, particularly in Europe.

There should be no delusion that this assault from overseas has been directed at products Canada imports from the United States. The drive is directed at products that are designed and built — and provide employment —in Canada. The weight of this assault by foreign producers of electrical products can be measured by the fact that, since 1952, electrical imports have risen 65% faster than all imports into Canada.

The Canadian electrical manufacturing industry has exerted every effort within its own command to meet this challenge from overseas. It has, in general, met European price levels in the apparatus field. As one example, taking 1949 price levels for power transformers as 100% and the composite Canadian cost of labour and material at that date as 100%, Canadian price levels today stand at 88% of 1949 and costs at 152%. By reducing earnings to the vanishing point and below, and by designing out every spare ounce of copper and steel, a Canadian power transformer industry has been kept in existence, though precariously. This same effort has been applied to many other product lines.

While carrying out these energetic measures to meet foreign competition, the industry has asked its customers, in their own basic interests, to include in their analyses of domestic and foreign prices a full evaluation of the benefits inherent in Canadian-made equipment, beyond the quality of the equipment itself. These benefits include: increased employment opportunities for Canadians; taxes paid by the domestic manufacturer to all levels of government; contributions made by Canadian manufacturers for charitable and welfare organizations, and for university needs; training programs carried out by Canadian manufacturers for technical personnel; and the constant flow of engineering data between the industry's engineers and those of its customers.

Electrical power, and the equipment to put it to work, continues to provide the keystone of Canada's growth. In 1959, for the first time, output of Canada's electrical stations exceeded 100 billion kilowatt-hours. The vast bulk of this power is generated from hydraulic sources, but major waterpower sites within economic transmission distances of such large power-consuming centres as Southern Ontario have now, or in the near future will be, fully developed. Thus the attention of utilities and manufacturers is being increasingly concentrated on the development of power from steam sources. Canadian electrical manufacturers are renowned as manufacturers of waterwheel generators. A vigorous program is now being carried on by manufacturers to create a whole new body of Canadian engineering skills and production knowledge relating to thermal generating equipment.

**Business Prospects in 1960**

The level of general business activity in 1960 is expected to reach $36.5 billion in terms of Gross National Product. A modest increase in the rate of consumers spending, further inventory accumulation and an increase in investment in new plant and equipment are the factors most likely to make the greatest contribution to the anticipated increase in overall demand.

Providing the situation in the capital market does not change appreciably, we expect business capital spending in 1960 to show the first year-to-year increase in the past two years. This is, of course, important to the electrical manufacturing industry. The emphasis is expected to be on new machinery and new equipment rather than new plant. We do not anticipate that expenditures for housing and social capital will show the same rate of growth in 1960 that has been experienced in recent years.

We are now in the upswing phase of the business cycle. If management and labour in industry, trade and services can act wisely over the next few months, they can ensure that this business upswing continues on a firm and healthy foundation.

## HON. R. L. STANFIELD

**Premier of Nova Scotia**

For Canada, the year 1960 opens amidst conditions favorable for sound economic growth. Within Canada consumer income has been rising, savings have been growing, and the outlook for retail sales continue to be good.

R. L. Stanfield

It is likely that there will be an increase in capital expenditures by business because of growing internal demand and improvement in export trade. A continuing rise in production and employment is forecast for 1960, although some industries may move at a somewhat slower pace.

Prospects for foreign trade are on the whole encouraging. There has been an improvement in world commodity markets, and the outlook for Canadian sales is good, although we must watch for some new hazards in North American trade with Europe which may result from the formation of trade blocks, the Common Market and the Outer Seven, and export trade by Communist countries. The world's main trading currencies are now convertible, and discrimination against dollar area exports is being lessened.

The year will not be without its problems, both economic and political, but world conditions have improved, and, in Canada as elsewhere, there will be an opportunity to devote a greater share of production to peaceful purposes.

## L. E. SPENCER

**President & General Manager, The Goodyear Tire & Rubber Co. of Canada, Ltd.**

The Canadian business outlook as it appears to the Rubber Industry is very favorable for at least the next six months and probably for 1960 as a whole.

L. E. Spencer

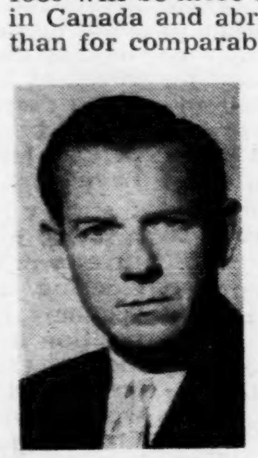
Demand for original equipment products (tires, airfoam, mats, hose, belts, etc.) for automotive vehicles is expected to be at record or near-record levels, assuming of course, that there are no further interruptions in supplies of raw materials and sub-assemblies.

Replacement demand for tires and other rubber products also continues at a vigorous pace which, together with the increased demand for the new vehicles, indicates that 1960 will be a record year for business volume.

## S. JOSEPH TANKOOS, JR.

**Chairman of the Board, Tankoos Yarmon Ltd.**

The climate for international real estate investment in 1960 will be more favorable than ever before with yields in Canada and abroad remaining about one point higher than for comparable income-producing properties in the United States. There were abundant investment opportunities in Canada in 1959 due to the country's young, dynamic economy and fast-growing cities. Proof of the health of Canadian real estate is the fact that brokers there were receiving bids from English and Swiss investors seeking to capitalize on the booming economic climate.



S. Joseph Tankoos, Jr.

Three factors combine to make Canada a prime realty investment area. They are: (1) higher average yields; (2) greater opportunity for capital gains; and (3) a lower inheritance tax, which allows a greater portion of an estate to be passed along intact.

The combination of these factors has made it possible for Tankoos Yarmon Ltd. and its associates to purchase more than 100 income-producing properties in Canada in the five years it has been in existence. Total consideration in these transactions is in excess of $140,000,000.

Besides Tankoos Yarmon's Canadian interests, the firm is in the forefront of a group of American investors who are making capital available in France for the construction of cooperative housing.

Currently, Tankoos Yarmon, working closely with local French financial interests, is building four cooperative housing units in Paris.

In South America, Tankoos Yarmon has extended its activities to Venezuela where, pursuing a policy of close collaboration with local groups, we are constructing office buildings in Caracas and Maracaibo.

While our investment activities are international in scope, our base is in Canada. Tankoos Yarmon is generally credited with introducing the multi-tenant, sales leaseback technique to the Dominion. In the past two years, we have acted in more than $50,000,000 worth of leaseback transactions with such firms as Canada Safeway Ltd., Kayser-Roth, Woolworth's and Canadian Petrofina.

In the past year, Canada has become the world's largest importer of capital. The demands made on the available money supply have raised interest rates to their highest levels since the Thirties, with industry leading the rest of the economy in its use of the new funds for expansion.

The prospect for 1960 in Canada is of a continuing tight money market eased possibly by the buoyant strength of the economy.

If this anticipated tight money situation persists, it will have an adverse effect on the residential home building industry. A solution to this particular problem was proposed early this month (by the President of Tankoos Yarmon Ltd., Elliot N. Yarmon), to the National House Builders Association at their annual meeting.

Mr. Yarmon called for the creation of a new private lending corporation, patterned after United States experience, with bonds 100% guaranteed by the Canadian Government as a means of raising $1 billion of new mortgage money to finance new home construction in the Dominion.

The Government-guaranteed bonds could be sold to the general public to supplement the existing National Housing Act and conventional mortgage funds now in such short supply. He cited the successes of the "Magic Fives"—U. S. Treasury obligations paying 5% interest, and the 366-day U. S. Treasury bills as arguments for his plan. These guaranteed bonds of Mr. Yarmon's proposed nongovernment mortgage lending organization would probably pay 6% interest.

Interest will fluctuate with local market conditions and not be frozen at any arbitrary level as the National Housing Act rate is. Equity capital for the new institution would be raised through stock subscription of each application for financing in a fixed ratio of common stock to mortgage loans.

These proposed bonds would be highly attractive to substantial sources in the United States and Europe.

Should Mr. Yarmon's proposal become a reality it will aid in continuing to reverse the traditional Canadian reluctance toward investing at home. Canadians will be inspired by the same attractions that invite nonresident capital. Because of this, more intense competition for prime realty situations may be expected.

The relaxation of many European currency restrictions combined with the active interest of British and Swiss funds in establishing development and investment outlets in Canada will further activate the market. English capital, in particular, encouraged by the Treasury, seeks redevelopment in Toronto or Montreal and this trend promises to grow among foreign investors.

The stringent conditions which developed in the Canadian money markets during 1959 resulted in a curtailment of borrowing by major corporations and a consequent slowing down or postponement of their new construction for expansion.

However, it was fortunate that the supply of leaseback funds was not seriously affected nor did leaseback rates rise to the same extent as conventional mortgage rates and the cost of bond financing.

I am confident that there will be no material change in the availability of leaseback financing during 1960 and much of the new industrial construction will be supported by this method.

## E. H. TANNER

**Chairman of the Board, Triad Oil Co. Ltd.**

The importance of the oil and gas industry to the economy of the Province of Alberta can hardly be exaggerated. Well over one-half of the population living in the principal cities of the Province are dependent directly or indirectly on the exploration for and development of oil and natural gas resources.

The outlook for the Canadian oil and gas producer appears slightly brighter for 1960, although no appreciable improvement in market outlets is presently indicated. However, several factors could develop during the year 1960 which would have an important bearing on the outlook for the industry in future years. For example, decisions by major oil companies to use Canadian oil in place of off-shore foreign oil in certain parts of Eastern Canada and the bordering United States from the Great Lakes west to the Pacific Coast would substantially improve the position of the domestic producer. If such markets can be developed for Canadian crude it would lessen the pressure for a pipeline to Montreal, which would in turn require some form of government protection and invite greater government control over the industry.

Development of export markets for Western Canadian natural gas continues to be retarded, but it is hoped that during 1960 the Federal Governments of both Canada and the United States will see fit to expedite the export of natural gas surplus to Canadian requirements and needed by the U. S. Canadian gas reserves are developing at a considerably faster rate than domestic requirements, and a favorable export policy would enable a number of producers to finally realize some revenue from large capital expenditures which are currently frozen. Such a policy would also encourage further exploration and development of gas prospects and increase the proven reserves needed to assure Canada of sufficient supplies.

Canadian exploration continues at a rapid rate with major activities moving westward into the Alberta-B. C. Foothills and into the Plains of northwestern Alberta and northeastern B. C., and the southern portion of the adjoining Northwest Territories. Exploration and development costs are high in these more remote areas, but geological indications and results of drilling to date, and the northward movement of both oil and gas pipeline facilities, are sufficiently encouraging to continue the search. This, together with the fact that most oil companies feel that the long-term markets for Canadian oil and gas are attractive, gives hope that 1960 may usher in the commencement of better conditions than have prevailed during the past three years.

## E. P. TAYLOR

**C.M.G., President, Argus Corporation Limited**

In my opinion, the Canadian business outlook for 1960 is quite buoyant with overall activity likely to approximate the 7% year-to-year gain we experienced in 1959. Exports and private capital outlays should provide considerably more strength to the economy this year. With indications that the large Federal Government deficits are behind us, new money requirements of the Canadian Government will be very much lower in the period ahead, leaving more room in the capital markets for other borrowers. This should also enable a higher percentage of our large capital investment program to be financed domestically than in 1959, and help reduce the upward pressure on the Canadian dollar. The recent narrowing of interest rates between Canada and the United States should also weaken the Canadian dollar somewhat and prove of general benefit to our economy. Canadian business, despite the encouraging near-term outlook, still faces a number of important problems such as the trend to higher costs compared with countries overseas. This is putting pressure on profit margins, and intensifying competition at home and abroad. A recent limiting factor is the incidence of tight money in the financing of expansion of many businesses and modernization of Canadian industry. Moreover, tax rates remain high, and with current levels of government expenditures there appears little prospect of near-term relief. The development of new trading blocs in Western Europe and certain protectionist tendencies in the United States present trading difficulties of indeterminate magnitude. Also, in the case of many agricultural products and industrial raw materials, of which Canada is a major exporter, a scarcity position in world markets has been replaced by one of

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# "Living Within Our Means"

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substantial start on getting away from the present heavy dependence on foreign resources and foreign borrowing. Increases in the rate of private saving of various kinds, and of public saving through governments developing an excess of revenue over total expenditure, are surely possible without hardship. At the same time there are various kinds of capital expenditure, both public and private, which we do not need to increase as rapidly in the future as we have done or attempted to do in the past. We may have to question among ourselves the sanctity of a number of sacred cows in the field of public investment. This may be shocking to exponents of the do-it-all-now-at-any-cost school of expansion, but it may yield some interesting answers once we begin to ask the right questions. One of the questions might be—are those who will benefit willing in certain cases to pay for further capital expansion by rate charges on a pay-as-you-go basis? Another question is whether the community as a whole or the affected groups are willing to pay for certain public expenditures out of increased taxes? If not, what things would we be most willing to forego if borrowed funds were not available? In the field of natural resource development, is it necessary or wise to proceed at quite the pace we attempted in the "50s," or would it be desirable for public authorities to husband more of our natural resources for development at a time when Canadian savings, growing over the years, would be larger and better able to finance their development without foreign capital?

There can be no doubt that most of the kinds of capital expenditure now being made in Canada are good in themselves in varying degrees, but even where they are highly desirable, the combined total is so large as to raise the question, how much is really necessary, and how soon is it necessary that certain projects should go ahead?

This is the kind of question that individuals and families have to ask themselves constantly. It is most unusual for any family to be in a position where it can afford to have whatever it wants and all that it wants as soon as it wants. There will always be many desirable things it would like to have or do but cannot afford—at any rate not yet—not until it has built up its earning power (production) or is able to increase its saving by doing without something else it wants less. What is taken for granted in the case of a family is no less necessary in the case of the nation as a whole, though of course certain enterprises within the nation may prudently borrow for certain purposes if other sectors will provide the savings. In addition to the test "Is it good?" there must be applied the further test "Can we really afford it? Can we pay for it out of our own production or income or within the limits of prudent borrowing at home?" And if not "is there something else we want less and could do without in order to save and have this?" As a nation we cannot in the long run avoid this kind of choice any more than we can avoid it in our separate families. Relative to other countries the choice that face Canada, the second wealthiest country in the world, should not be too hard.

### Recalls Warning of Three Years Ago

Three years ago when reviewing the development of the very large balance of payments deficit of 1956 I remarked that "An import surplus of balance of payments deficit of the present size is the product and symptom of an excessive rate of spending in the economy, not just of a reasonable rate of real growth. It would be disturbing to think of an import surplus of such magnitude continuing for an indefinite period." At that time I expressed the belief "That total spending of all kinds . . . was at least $1 billion greater than would have been desirable from the point of view of general stability and sound economic growth."

Three more years have gone by in which we have had large balance of payments deficits and we are now launched on another year with the prospective excess of spending over production being greater than ever, presumably to be made possible for the time being by an equivalent excess of imports which will have to be financed by foreign resources in one form or another.

The relationship between excessive total spending, the excess of imports over exports, and continued borrowing abroad (or investment in Canada by foreigners) is obviously one of interaction. If spending exceeds local production it must induce either inflation, or a flow of imports in excess of exports, or both. Such imports can only be financed either by running down the national reserves of foreign assets, or by new borrowing abroad, either of which causes the net foreign debt of the country to rise by an equivalent amount.

Conversely, the ability to borrow abroad or obtain investment funds from abroad makes possible for a time the maintenance or expansion of spending programs which otherwise would have to be curtailed or held to a smaller rate of increase. Borrowing abroad therefore not only finances a rise in imports, it makes possible the spending which gave rise to the increased load on the domestic economy which induced the rise in imports. (The imports are not necessarily made by the same person who does the borrowing and spending.)

"Contrariwise," willingness to do without foreign borrowing, willingness to hold spending programs to amounts that can be raised at home out of revenues, or available loanable resources at home, will reduce inflationary pressures and the volume of imports, and therefore the size of the current account balance of payments deficit. It will also increase our ability to compete in export markets.

### Examines New Foreign Investments

New foreign investment in Canada each year may be divided in two broad categories. One is that which is undertaken by foreigners on their own initiative, either by way of direct investment in Canadian subsidiaries or by way of purchasing in the market Canadian stocks and bonds, payable in Canadian currency. The other broad category is that which would not take place without the initiative being taken by Canadians, whether governments or business. In this category, the parties chiefly involved in recent years have been the provincial governments and a number of municipalities which have borrowed abroad through the issue and sale of bonds payable in foreign currency. The Federal Government has not borrowed abroad since 1950, but provincial and municipal net new issues abroad, of bonds payable in foreign currency including guaranteed as well as direct issues, have been substantial every year except 1955 and rose to $340 million in 1959. Gross new issues have of course been considerably larger.

Local governments and their government-owned business enterprises and other agencies that issue or guarantee securities payable in a foreign currency incur an exchange risk of unknown dimensions. Because they have no foreign currency revenues and because no one can know what rate of exchange will be ruling at various times in the future when payments of interest and principal have to be made, they do not in fact know what the borrowed money is going to cost in terms of Canadian dollars, the currency in which their revenues are paid.

### Says Savings Are Now Adequate

Although at one time access to the United Kingdom capital market, the United States capital market and other foreign capital markets may have been a helpful standby to remedy inadequacies in the Canadian capital market, it has not been necessary from that point of view for some years. Canadian savings and the machinery of the Canadian capital market can now supply all the capital funds needed by governments and business combined to carry on a capital expenditure program as large in total as is sound and healthy for the Canadian economy to sustain in any one year.

Further resort to foreign borrowing in such circumstances by local governments and their agencies would be based either on the opinion that such borrowing will prove cheaper in the long run—which is a gamble on the exchange rate, not a sober judgment—or on disregard of the possible consequences for future budgets and future generations of Canadians. It is difficult to see how this can be considered sound finance.

I have at several points in my remarks suggested what public authorities could do to help bring about a better balance in our savings-expenditure ratio, reduce our rate of foreign borrowing, and moderate to some degree the ups and downs of the business cycle. Of course the problem before us covers a much wider territory.

I should like to revert for a moment to the relationship between monetary policy and the various other factors which can make either for stability or for instability. Unless public policies and private practices alike play their part in the struggle to achieve a more balanced economic structure in Canada, both monetary policy and the credit policies of the banks may be put under great strain—and the desired results will nevertheless not be achieved.

Those outside central banks who say that monetary policy, usually called "Tight Money," cannot by itself restrain inflation or protect a country from living beyond its means, are only saying something that central bankers have been trying to explain and emphasize for a long time past.

To go on, however, and say or imply that monetary policy is therefore useless and that tight money should be replaced by easy money, is nothing but mischievous defeatism. Anything that can be done by any agency or any group in the community to try to maintain overall stability should be done.

If tight money and high interest rates are painful, and by no means fully effective, the remedy is not to court disaster by cultivating easy money or funny money or subsidized money, but to remove the fundamental cause. So far as the cause is of external origin it is a question of how fast foreign enterprises are to develop their projects in this country. So far as the cause is of Canadian origin, the cure is basically a question of self-restraint and morale.

### Proposals Still Permit Expansion

For us in Canada to adopt the goal of living within our means would not in any way require giving up the goal of progress and expansion. On the contrary, it would enable us to achieve sustainable, efficient and fruitful expansion in a much more satisfactory way than in the past. Nor would it mean we would have a slower rate of growth or a smaller proportion of new investment in physical equipment than in other countries. On the contrary, our own annual rate of saving, even without any further increase, is such as to provide a greater degree of new capital investment within our borders year by year than that which normally takes place in most other countries, including the United States. Every year we would be able to increase our productive plant by a greater amount than the preceding year. Our Gross National Product could be growing at least as rapidly as in the past, though some parts of the pattern of production and employment would be different.

The object of economic policy on a self-sustaining, self-respecting basis is growth not stagnation, progress without recurrent chills and fevers, and the greatest possible measure of the good things of life for the greatest number of people. But in pursuit of these objectives, prudence and moderation and putting saving before spending can do more for us, as they have for others, than overreaching and undue haste, and prolonged reliance on the crutch of rapidly rising foreign debt.

Last October I attended the annual meetings of the World Bank and International Monetary Fund, two institutions which are dedicated to the promotion of sound economic growth, monetary stability, and the expansion of international trade. I heard the President of the World Bank congratulate a European country for having overcome its postwar inflationary pressures, which were much worse and much more difficult to deal with — because of the destruction and dislocation arising from the War — than the pressures in Canada with which we have been faced and which we have not yet succeeded in containing.

He attributed their success not to the possession of rich natural resources, of which indeed they have none, but to qualities of personal character and community morale, namely, hard work, self-discipline and financial statesmanship.

With these qualities, and assisted in the early days of postwar rehabilitation by some foreign loans—including loans from Canada, it is strange to recall that for a time after the war we were a lender rather than a borrower — with these, they set their house in order, overcame great hardships and handicaps, and succeeded in living within their means, and paying off gradually their postwar foreign debt. They did this, and a number of other European nations pursued much the same course, because they knew it was in their interest as an independent, industrious and self-respecting nation.

Who will say it is beyond the power of Canadians to do the same?

*An address of Mr. Coyne before the Canadian Club of Winnipeg, Winnipeg, Canada, Jan. 18, 1960.

## Named Director

Royal Industries, Inc., Los Angeles, has announced the election of Donald A. Royce, senior partner of William R. Staats & Co., to the firm's board of directors, according to J. R. Johnson, Royal President.

## Three With First Maine

PORTLAND, Maine—Richard W. Armstrong, James S. Kelley and Thomas M. Walsh have become associated with First Maine Corporation, 84 Exchange Place.

*Continued from page 34*

relative plenty. This is a fundamentally constructive development, but it also poses some short-run marketing problems.

All factors considered, however, I believe the Canadian economy in the past three years has been consolidating its post-war gains and subject to wise governmental and private leadership is laying the base for another lengthy period of important economic growth and development.

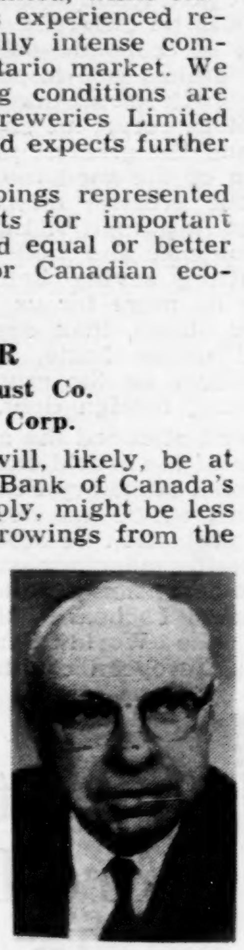
Argus Corporation Limited is a non-diversified investment company and, I believe, the largest closed-end fund in Canada with portfolio assets of approximately $100 million. We expect an improvement in our operations in 1960, with gross and net income levels somewhat higher than in 1959. In 1959, incidentally, we received in dividends only about 40% of the income attributable to the shares held. The companies which represent Argus' major holdings should in aggregate have a moderately higher level of earnings in 1960, particularly those engaged in the pulp and paper business (St. Lawrence Corporation Limited and British Columbia Forest Products Limited). Massey-Ferguson Limited which has just completed two strong years in sales and earnings should improve on the 1959 results this year. Overseas acquisitions, particularly of the Standard Motor Company's tractor facilities in the United Kingdom and the Perkins diesel plants last year, are working out quite satisfactorily. The well-diversified operations of Dominion Tar & Chemical Company should provide satisfactory operating results in 1960. The new rock salt plant at Goderich will provide additional earnings this year. Dominion Stores Limited, while continuing to show increases in sales, has experienced reduced profit margins from exceptionally intense competition in its important Southern Ontario market. We believe, however, that such operating conditions are abnormal and temporary. Canadian Breweries Limited in 1959 had its most successful year and expects further gains in sales and earnings in 1960.

In my opinion, the industrial groupings represented in the Argus portfolio hold prospects for important growth in the years ahead, and should equal or better the favorable longer-term outlook for Canadian economic development as a whole.

## J. ALLYN TAYLOR

**President, The Canada Trust Co.**
**The Huron & Erie Mortgage Corp.**

As Canadian Government financing will, likely, be at much reduced levels in 1960 and the Bank of Canada's action, with respect to the money supply, might be less stringent, we anticipate a rise in borrowings from the public permitting an expansion in mortgage lending. However, overall mortgage lending will probably decline due to less assistance from the government in the form of direct loans for housing. Indications are that housing starts may be down by as much as 10% to 15% largely in the government-financed section.



J. Allyn Taylor

Conventional mortgage loans are carrying interest rates from 7% to 8% for good risks and as demand for mortgage money is expected to remain strong there seems little likelihood of any reduction in these rates. The interest on National Housing Act Loans has, recently, been increased from 6% to 6¾%. This increase was necessitated by the increasing level of interest rates on other competitive investments.

More generally, Canada will experience a very good year in most sectors of the economy. Farm income is one other area which may not participate and may continue to decline slightly. Our raw resource industries, however, will benefit from the business expansion taking place in the United States and profits should improve, particularly if there is a decline in the premium on the Canadian dollar. There is hope for increasing exports to the United Kingdom and Europe.

Unfortunately, despite these favorable developments, Canada's overall balance of payments' position clouds the economic horizon. Whereas relatively attractive interest rates in Canada, undoubtedly, produced an inflow of capital last year, interest rates in the United States, the United Kingdom and some European countries are showing signs of rising to levels which will make short-term investment in Canada less attractive and if a capital outflow does not develop, at least the capital inflow may be reduced.

The year may produce greater accumulation of inventories at most levels of business than the slight rise which took place in 1959.

Renewed pipe line construction will be indicative of an increased capital expansion program on the part of business which should offset the decline in housing. All levels of government will likely spend on about the same scale as last year and on balance, total capital expenditures are expected to be slightly higher. New machinery and equipment will capture a larger share of the dollar as opposed to plant construction.

There is still over-capacity existing in much of industry and the resulting competition for markets combined with the anti-inflationary policies of government should hold price increases to modest levels this year.

From present indications employment and consumer income will achieve new records. A possible result of this may be increasing consumer confidence and an expansion of consumer credit. This would bode well for merchandisers and we might witness a slight swing in consumer buying towards hardgoods.

The expansionary forces will be felt most in the first half of the year. Beyond that time the outlook is much more uncertain but our view is that the rate of gross national product will merely level off rather than decline towards the end of the year. Unfortunately, management/labor difficulties may increase as employers strive to hold-down costs in the face of intense competition and only modest price increases.

## A. A. THORNBROUGH

**President, Massey-Ferguson Limited**

At this date indications are that 1960 industry sales will be at approximately the same level as last year.

There have been a number of comments recently on lower farm net income for next year. While this is naturally of foremost importance to the farmer, it should be noted that the experience of the industry over many years is that sales of farm machinery are much more closely related to gross farm cash income than to net income. During 1959 gross farm cash income in North America was down about 1½%, and the expectation is that in 1960 it will be down about 2½%.

A. A. Thornbrough

The fast, light and easy 1959 harvest in the United States, combined with early winter and heavy snow in Western Canada — where substantial quantities of grain will not be harvested until the Spring—left the industry at year-end with an inventory that was higher than anticipated. Industry employment in North America will, therefore, probably be down somewhat from the high level of 1959.

Massey-Ferguson's sales within Canada were up 38% in 1959, and up 24% within the United States. This brings the increase in the United States market to more than 80% over the past two years. Within the European market, France presents some uncertainties; prospects appear reasonably good but increasingly competitive in the United Kingdom, while business in Germany is developing steadily. Australian Operations should experience another good year. On a world-wide basis it seems possible that Massey-Ferguson 1960 sales will show a slight increase over those of 1959.

On North American farms the trend still continues toward larger equipment and more recently a pronounced swing to diesel-powered machinery. In the Eastern Hemisphere the strong demand and potential for modern power equipment is pointed up by the increased tempo of European production and marketing operations of North American-based companies.

## C. E. WHITE

**President, Ungava Iron Ores Co.**

Northern Canada is defined as that part of Canada lying north of a line from Stewart, B. C. to the intersection of the 90° of longitude west of Greenwich and the 50th parallel and thence east to the Atlantic Ocean. This vast area does not follow provincial or territorial boundaries and is distinguished by a generally cold climate, lack of agriculture and population, and difficult transportation and communications. Northern Canada is a vast area endowed with considerable natural resources. Today Canada is faced with the difficult problem of deciding how Northern Canada can be developed to the best interest of the nation and the free world.

C. E. White

The Canadian Government very wisely decided that the development of natural resources was essential to Canada and has allowed a three-year tax-exempt period in order to encourage mining developments. This policy has proved to be eminently successful as can be seen by the rapid growth of this industry in recent years, placing Canada in the forefront of nations in the production of minerals.

While one should have no illusions that costs in Northern Canada are as low as in the more settled parts, it is also true that no problems have been encountered which are insurmountable. Life in Dawson, Port Radium, Whitehorse and Yellowknife is enjoyed by the residents as much or more than by their brothers in Toronto and Montreal. The normal amenities of living provided in the north compare very favorably with those in other Canadian cities.

### How Can the Development of Northern Canada Be Stimulated?

Due to the fact that the summer season is relatively short in Northern Canada and construction and operating costs are somewhat higher, it therefore requires a longer period of time for an operation to become as profitable in the North as in Southern Canada. At the present time, a three year tax-free period is allowed in Canada. Thus, it is recommended that an even more liberal tax-free period should be allowed to operations in Northern Canada. The adoption of any suggested formula for this exemption is far less important than the recognition by the Canadian Government that some significant tax privileges must be made to those who are willing to invest in Northern Canada. If this principle is adopted, the Canadian North will enjoy the most rapid development in history and the Canadian economy will benefit to an extent far in excess of our fondest hopes.

## G. L. WILCOX

**President, Canadian Westinghouse Co. Ltd.**

The decline in activity in the Electrical Manufacturing Industry which began late in 1956 continued almost without interruption to the end of 1958. The slight firming of activity which has taken place through the first nine months of 1959, however, is far from the magnitude of the upswing experienced by the overall economy. Moreover, this slightly higher level of activity experienced was due not to an increase in new orders, but to a build up of inventory which began around November 1958 after almost a year and a half of inventory depletion.

G. L. Wilcox

Inventories in the Electrical Manufacturing Industry are now at about the same level as mid-1957, and in relation to the current and immediately foreseeable value of business, are more than adequate. Consequently, any increase in the level of activity in the industry for at least the first half of 1960 will be obtained not as the result of further inventory accumulation, but by the generation of new business. To date, there has been no apparent upswing in the volume of new orders placed.

The volume of activity in the industry will, I believe, remain fairly level throughout 1960 and on a plane only slightly higher than in 1959. All segments of the industry, however, will not conform to this overall pattern. As far as heavy apparatus is concerned, the 1960 outlook is not promising. This particular segment of the industry is now feeling the full impact of lower activity resulting from the greatly reduced level of new orders over the past two years. It is estimated that the 1960 level of activity in this area will be slightly below that of 1959. Light and industrial types of apparatus, on the other hand, will register a volume increase during 1960 somewhere in the order of 6 to 8% as the result of anticipated investment gains in commercial and institutional type of construction. Planned additions to existing capacity in some of our basic industries will also serve to bolster the 1960 demand for this type of equipment.

The current rate of consumer spending should be well maintained throughout the coming year and as a result the industry may expect a further, though by no means sensational, gain in consumer type products.

In forecasting a slight increase in the 1960 level of activity for the Electrical Manufacturing Industry, I do so fully cognizant of the fact that we are entering a year fraught with competitive difficulties — a year in which we will experience an even greater increase in competition from foreign products, due to the growing amount of excess capacity now developing in many low wage countries of the free world.

It will be a year in which the industry will have to strive more vigorously than ever to resist the further shrinking of its share of the home market.

## D. G. WILLMOT

**President, The Anthes-Imperial Co. Ltd.**

The quickening business pulse that we witnessed in 1959 signalled Canada's recovery from the recession of 1958. Consumer goods continued in heavy demand and capital spending accelerated throughout the year from the relatively low level of 1958. The construction industry, generally, enjoyed an active year and, with the exception of the residential segment, should experience a moderate increase in 1960. Much of the optimism that prevailed during the third and fourth quarters of 1959 seems to have had sufficient momentum to carry well into 1960. In summary, the strength of the Canadian economy at year end augurs well for a prosperous 1960.

D. G. Willmot

There is strong evidence that the "tight" money situation and the high level of interest rates may retard the rate of capital expension somewhat in 1960. Borrowers may show some hesitancy in making capital commitments in the hope that interest rates may slacken. The relatively high demand for goods and services, however, should provide the impetus to keep the economy in high gear.

Gross National Product is forecasted to improve by 5 to 7% for 1960 and much of this will represent real output. It is anticipated that industrial employment will be at a new high level and industrial production should exceed the 1959 rate by 5%. The optimism that exists for capital expansion should assist in balancing the expected retrenchment in residential construction.

The forces now operating in the market — acute competition, price fluctuation and cost pressures — can be expected to continue at or near the same intensity. It is our conviction that the business expansion we all look forward to in 1960 can only be sustained with productivity growth and effective control of costs. Any artificial stimulation of the economy stemming from expanded government competition for goods and services or undue control of credit policies resulting in still higher interest rates will seriously undermine the economic climate now envisioned for 1960.

There is much to support a bright outlook for the new year. As a member of the Plumbing and Heating Industry, we see a continued broad horizon ahead. The temporary decline that residential construction may be

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# Prospects for New Growth in Canada's Economy in 1960

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profit from the lessons to be learned from it.

During the decade just ended, Canada has enjoyed substantial growth. Gross National Product has almost doubled from $18 billion in 1950 to nearly $35 billion in 1959. However, to a considerable degree this progress has been associated with unstable elements in the economy, over a quarter of the gain has been consumed by price increases, and the lustre of our prosperity has been somewhat tarnished by two recessionary cycles. Too often we have been tempted to pursue too rapid a rate of growth with too little regard for the inevitable consequences and inequities.

For the Canadian economy, the new decade of the '60s opens in an expansionary phase, one that gives promise of being more securely founded in terms of demand, resources and productivity. 1960 offers the prospect of continued sustainable growth provided we are prepared to pay heed to the lessons of the '50s. New elements bid fair to come forward to lift the economy to new heights, chief among them export demand and capital investment.

The level of Canadian exports is rising. The international economic climate is expansive, many of the war-born impediments to trade are vanishing, and the rising reliance in the United States and other major countries of the free world upon external suppliers of industrial materials holds important potential for Canadian exports so long as they can remain competitive.

Private surveys of capital investment intentions suggest that the plans of the business community for 1960 contemplate an accelerated rate of investment in the commercial and industrial sector of the economy. While there may be some reduction in residential construction, increases in investment in plant and equipment are likely to more than offset them and in the aggregate there seems to be a clear indication that total investment, both private and public, will reach new records in the coming year.

The continued increase in exports and capital outlays suggests that 1960 will be a year of rising output and employment which will see a more efficient and fuller use of the productive resources of the economy than 1959. Correspondingly, it can be expected that the trends of income and consumption will continue to move upward with output and employment.

In summary, it would appear that a production increase of substantial magnitude can occur in 1960 without placing excessive pressure on plant and manpower capacities.

There are the prospects. These are the potential of the Canadian economy. The promise of further enlargement of national production, incomes and employment should not, however, blind us to the fact that continuous progress throughout this year and beyond it is not inevitable. We cannot assume the assurance of a higher national income year after year unless we take steps to ensure that the expansion is orderly and balanced. There have been years, even in the postwar period, when the real rate of growth in Canada was considerably less than the economy was capable of achieving. If we are to have continuous and sustained improvement in production, and thus in our standard of living, we must employ all the collective intelligence and discipline which we possess to prevent unnecessary interruptions in the progress of the economy.

### Free Enterprise the Best System

One thing has been made abundantly clear in the past decade. It is that the Canadian people are firmly determined to preserve the system of free enterprise. It is under that system that the prosperity and growth of this country have been achieved. It is that system which provides the maximum of security, combined with freedom and opportunity. It is not the perfect system, it is just the best system. Its corollary is that governments should not attempt to do for people what they can better do for themselves.

### Three Dangers Threatening Sound Growth

In harmony with the note which I have sounded that uninterrupted progress for the indefinite future is not inevitable, I discern three dangers confronting the Canadian economy, namely, instability, inflation, and high costs. Each of these dangers is related to the other two.

We are so dependent upon foreign trade, and so closely linked in many ways with the fortunes of the United States and our other trading partners that we are bound to be affected, for good or ill, by the swings of economic activity originating outside our own borders. Then, too, in a dynamic economy such as ours, technological changes, variations in demand at home and abroad for particular goods and services, and errors in judgment on the part of those whose business it is to try to anticipate these changing demands, all serve to produce fluctuations in economic activity from year to year, and sometimes to interrupt our progress.

But the kind of instability that we have to fight against is a more serious one. I refer to the instability which arises when a condition of greatly increased demand develops over a wide area of the economy, usually based upon the use of credit, and which threatens to outrun the productive capacity of the economy. This is the kind of situation which causes inflation and recession. It was present in a considerable degree in North America in 1955 and 1956 and in fact is a condition which can easily develop in a dynamic economy, particularly if prices and costs are rising or if it is widely believed that costs and prices are likely to rise. As we know from experience, if these conditions are allowed to develop it is usually impossible to apply the brakes without bringing about economic dislocation and recession, with all that this means in terms of wasted resources and unemployment.

The fact is that a condition of steadily rising price levels is not conducive to sustaining the growth of the economy. It is a dangerous temporary stimulant, and no more. We have seen that the very impressive expansion of production and living standards which the countries of Western Europe have begun to achieve in the last few years was not able to gather momentum until they had achieved price and currency stability.

### Must Curb Excessive Spending

The lesson we should draw from experience is that in a period of economic expansion such as we are now enjoying in Canada, we must all avoid doing those things which are likely to encourage a forced or excessive growth in spending. If we fail to act in this way we will be faced with the distortions and instabilities which cause economic recessions. We all know that if an upsurge in the total spending in a country proceeds too rapidly, and in too many directions, in too short a time, prices and costs are bound to be pushed up. In such a situation those who speculate, or who can operate on the basis of increased borrowings, tend to be rewarded, while normal business suffers. All too often, we find that the economy has accumulated swollen inventories and built more plant capacity than we need for the time being. So production is curtailed, or shut down, workers are dropped from the payroll, and almost every other business finds it necessary to go slowly for a year or two. If price inflation becomes very marked, or continues for very long, confidence in the value of fixed interest-bearing securities is likely to be undermined, thereby discouraging saving. When this happens the more productive and dependable forms of enterprise are unable to obtain capital and the whole economy is weakened.

Wide economic fluctuations, whether upward or downward, produce very harmful effects. We must seek to spare Canada the experience of "boom-bust." Excessive fluctuations create fear and disturb confidence in the future.

Inflation has accompanied economic growth in Canada in the postwar period. This has given rise to an erroneous belief in the minds of some that a measure of inflation is necessary to stimulate growth. This is a fallacy of the deepest dye. Growth in this postwar period has been achieved in spite of and not in consequence of the measure of inflation which has accompanied it. I believe that inflation is an evil in any of its forms. I believe also that it cannot be overcome by governments alone. It will be vanquished only by the efforts of all.

### Cost Control Essential

I have spoken of the first two of the dangers which confront us, namely, instability and inflation. The third is very closely related to them. It is the danger of rising costs. Canada cannot insulate its economy from the rest of the world. We are the fifth trading nation of the world. Twenty per cent of our national production is disposed of in external markets. We must be aware that we have moved into a period of the keenest international trading competition. This is the inevitable consequence of the sweeping economic recovery of Europe and the enlargement of the resources of Asia. The Communist Bloc, with the possibility of dumping of goods in international markets without regard to the cost of production, confronts us with a new and disturbing form of competition. The scarcity of goods in the earlier postwar years has disappeared. The sellers' market is a thing of the past. The buyers' market is here and is likely to continue as far as one can see.

Trading associations are taking

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facing should not be allowed to overshadow the potential that exists in the modernization and replacement segments of the market. With the continuing growth of disposable income for the country at large, there is little doubt that additional emphasis will be placed on modernization and replacement.

Canada's economic progress carries vast momentum and, as we enter the decade of the sixties, we can look forward to a period which history may record as an era of unprecedented growth and prosperity.

### W. L. WALSH

**President, Quebec Iron & Titanium Corp.**

The outlook for 1960 is good. In 1959 sales of titanium slag recovered from the severe drop experienced in 1958.

W. L. Walsh

Increased production in the titanium pigment industry in the United States and Canada, together with the development of new markets for slag in Europe, were the major factors in the improvement. Sales of slag in the coming year are expected to exceed 1959 by 25% and will fully engage the new capacity installed in 1958.

Sales of the co-product, pig iron, are expected to keep pace with the titanium slag. The improved high-carbon iron, containing silicon and manganese, which was developed for the Quebec foundry market, is expected to be a significant factor in 1960 sales.

The program of plant expansion, started in 1957, will be completed during the coming year in order to provide for a still greater increase in sales forecast for 1961. We look forward, therefore, to 1960 with considerable optimism.

### HON. ROBERT WINTERS

**President, The Rio Tinto Mining Co. of Canada, Ltd.**

When the 1959 production statistics for Canada's uranium industry are published, they will undoubtedly show the year to have been one of peak production, with an export value in excess of $300,000,000. These record earnings are due to the fact that some companies have experienced, in 1959, their first year of full production. Output at this level was expected to continue until the expiry of present contracts in 1962 and 1963.

R. H. Winters

Ironically, 1959 is also the year when the U. S. Government announced it would not exercise any of the options it holds on Canadian uranium production after 1962 and 1963, proposing instead, with the accord of the Canadian Government, that the companies should arrange to stretch-out their existing delivery commitments, under contracts, until Nov. 30, 1966.

This announcement came as a surprise and shock to the uranium industry. While we did not expect that the options would have been exercised in full, in view of the current over-supply of uranium, we had always believed that a sufficiently strong case could be made for at least a portion exercising, in view of the peculiar circumstances of the industry and its very considerable importance to the Canadian economy as Canada's third export commodity.

Instead, the whole burden of re-adjustment now falls on the private producers. Moreover, the decision appears to discriminate against Canada insofar as American and foreign producers are protected by firm contracts until 1966, and, in some cases, beyond.

It is still too early to forecast what picture the industry will present six months from now, but it is practically certain that production will decline steeply as certain mines and mills close down, leaving their contracts, at a price, to be fulfilled by those units planning to continue production through 1966. On the strength of existing government contracts alone there would not likely be more than two or three uranium mines operating in Canada by the end of 1966. Civilian orders constitute the industry's big hope.

The industry is now working on the many problems involved in this major re-adjustment. These problems include questions of the price to be paid for contracts up for sale, the repayment of bondholders, the position of shareholders, and the many social difficulties involved in the closing of mines. The immediate objectives are, and must be, the preservation of a strong efficient nucleus of operating companies capable of competing in the open market through the difficult period of the 1960's. Meanwhile, great strides continue to be made in the civilian applications of nuclear power, and I remain convinced that by the end of the 'Sixties the civilian demand alone for uranium may dictate our mining all the uranium we can produce.

### EDWARD C. WOOD

**President, Imperial Tobacco Co. of Canada, Limited**

Steady growth in the Canadian tobacco industry has been interrupted as the result of an increase in Federal Excise taxes on cigarettes. Although cigarettes were already the most highly taxed commodity in Canada, smokers were called upon to pay a Federal Excise tax increase which necessitated a price increase of three cents per package of twenty.

Edward C. Wood

Production has been seriously affected by this Federal Budget change. For the ten months ended Oct. 31, 1959, cigerettes excised for release in Canada are up only 3%, as compared to the same period one year ago. This is very disappointing in comparison with recent years which showed increases above the long term trend of 6-7%. Although the industry may resume its previous rate of upward trend, it can only be from this now much lower base. The sales of billions of cigarettes are lost and cannot be recovered, neither as volume for the industry nor as revenue for the Federal Government, which now takes over 57¢ of each consumer dollar spent on cigarettes. Even in the current year the Federal treasury will profit only slightly from the excise tax increase of last April.

These lost sales are reflected in the general economy by the loss of millions of pounds of leaf tobacco involved, lower purchases of wrapping materials, aluminum foil, cellophane, etc., losses in wages to labour and losses in volume to the wholesale and retail distributive trade.

The increased prices paid for the Canadian grown leaf tobacco which is now being marketed could have a definite effect on manufacturers who continue to be faced with a cost squeeze. Every effort, technological and administrative, will be made to prevent these costs from spreading into the retail price of the products.

The tobacco industry remains one of the most efficient in Canada. In technological progress it has kept well abreast of industrial developments, and this has been reflected in relatively low selling prices—net of excise taxes. Since World War II Canadian manufacturers' cigarette prices have moved up by only two-fifths of the price increases in all other manufactured products. On average, only 15% of the consumer price is used in the transportation and wholesale and retail distribution of the industry's products through 90,000 outlets across the country—a low percentage cost for any product in such widespread distribution.

The year 1960 is faced with knowledgeable optimism—knowledgeable in that the Canadian industry is efficient, and optimistic in that the regressive experience of 1959 may bring the Federal Government to realize the advantages, both to general economy and Federal revenue of a decrease in excise taxes on Canadian cigarettes.

### F. T. WOOD

**Administrative Assistant to the President, Trans-Canada Air Lines**

The year 1960 looms as the most exciting 12 months in the 51-year history of powered flight in Canada—and the most critical.

For in 1960, we will introduce the first of the giant commercial jets in Canada, bringing a new experience in flying to 17,-500,000 Canadians.

F. T. Wood

The airline expects to inaugurate daily trans-continental jet service between Vancouver, Toronto and Montreal on April 1, and daily trans-Atlantic jet service between Montreal and London, Eng., on June 1, with Douglas DC-8 jetliners.

Capable of carrying 127 passengers at more than 550 miles an hour, these giant aircraft will shrink distances and reduce travelling times by almost half. Flying time between Vancouver, B. C., and Montreal, a distance of 2,500 miles, will be four hours, 50 minutes; between Montreal and London, Eng., less than six hours.

While the jets are potentially the most efficient and productive commercial air vehicles yet devised, they are also the hungriest.

They have tremendous earning capacity but the fixed costs of mere ownership, let alone operation costs, are also high. Both good utilization and good passenger loads will be needed in 1960 if they are to be as successful in actuality as they purport to be on paper.

There is good reason to believe that both good utilization and loads can be achieved, particularly in the light of airline growth and passenger traffic during the past decade.

In 1960, TCA also expects to take delivery of the first of 20 ordered Vickers Vanguard turbo-prop airliners. This aircraft is capable of carrying 96 passengers and up to 10 tons of cargo in the lower holds of a distinctive "double bubble" fuselage when passenger loads are light.

The Vanguard is considered to be potentially the most economical propellor-driven aircraft ever built.

By 1961, we expect to possess the world's first completely turbine powered intercontinental air fleet, flying DC-8's, Vanguards and Vickers Viscounts exclusively. The airline introduced turbine travel to North America in 1955 with the Rolls-Royce Dart-powered Viscount, today the world's most popular turbo-prop aircraft.

In 1959, TCA for the first time in its 22-year history carried more than 3,000,000 passengers, a 14% rise over the previous year. It offered almost three billion seat miles to the travelling public, a 17.5% rise over 1958, and increased the number of occupied seat miles to more than 1,800,000, a rise of 12.5%. This growth rate is expected to continue through 1960.

Despite constantly rising costs of labor and materials, fares in 1959 were retained at the low level established by TCA in 1958 and indications are that they will not rise in the coming year.

Since its inception in 1937 by Act of Parliament, TCA has grown with Canada and has contributed measurably

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### Earle Combs, Sr. Joins Bankers Securities, Inc.

(Special to THE FINANCIAL CHRONICLE)

LEXINGTON, Ky.—Earle B. Combs, Sr., has become associated with Bankers Securities, Incorporated, Central Bank Building. Mr. Combs was formerly Banking Commissioner for the Commonwealth of Kentucky.

Also now associated with Bankers Securities are Mrs. Helen H. Wadlington, previously with the banking department of Kentucky, Robert A. Hickey and Maxwell B. Duncan.

### With June S. Jones

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Oreg. — Robert P. Vannice has joined the staff of June S. Jones & Co., U. S. Bank Bldg.

### W. D. Shriver Opens

PARIS, Ky.—William D. Shriver is engaging in a securities business from offices at 1120 Pleasant Street.

# Prospects for New Growth in Canada's Economy in 1960

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form in Western Europe, in countries which today absorb $1¼ billion worth of our exports per annum. We must be alert to and resist the possibility of new discriminations arising in that quarter.

In the light of all of these circumstances, the warning to Canadian producers is clear: keep your costs down, or you will price yourselves out of world markets. At the same time you may price yourselves out of Canadian markets. All Canadians, whether directly engaged in production or not, have a direct interest in preventing the loss of markets through high costs of production.

Particularly at this juncture it is to be hoped that Canadians will enjoy industrial peace and cooperation. In the face of developments abroad, this is a time to avoid the supreme folly and waste of resources in industrial strife and work stoppages.

### Government Fiscal Policy in a Time of Expansion

This review of the bright prospects for 1960 and the lurking dangers which are inseparable from it leads me to ask what are the appropriate economic policies for the year which lies ahead of us? What useful part can government fiscal policy play in the development of the economy? How may it be employed to make the fullest use of the enterprise of all Canadians for the good of all, to promote stability in the economy, to resist the perils of inflation and to help the competitive position of Canadian producers in world markets?

Admittedly public policies have their limitations. Governments are not omnipotent. Although they are expected to do much, they cannot do everything. In a free society where the laws of supply and demand are still the most dominant of all economic forces, how may fiscal policy be employed to aid in achieving the accepted economic goals of that society?

The experience of the last two and a half years has taught us that in a period when economic conditions are changing rapidly, fiscal policy must be flexible. It must be adapted as far as possible to changing conditions. It is not easy to alter fiscal policy to keep fully abreast of conditions when they are undergoing rapid or frequent change. So much of government fiscal policy must express itself annually in the Budget measures. Adaptations between budgets are not possible on a large scale. This fact adds to the importance and responsibility of the Budget and the accuracy of the economic forecasts on which it is based.

In the last several years we have seen practically every kind of economic trend expressed in the Canadian economy. It has been necessary to adapt fiscal policy from time to time accordingly. The policy which guided the Budget of 1959 was not the same as that which governed the Budget of 1958. The conditions of 1960 are different from those of either 1958 or 1959. What then is the sound fiscal policy to meet the conditions of 1960?

I have on other occasions in recent months reviewed the sound reasons why we deliberately budgeted in 1958 for a substantial deficit and in 1959 for a reduced deficit. Each of these programs was adapted to the circumstances then confronting us. Two years ago we were meeting the problems of a recession then at its low point, and were seeking to use fiscal measures to offset the decline in business activity and to stimulate recovery. We gave strong support to new housing construction; we increased substantially our own direct expenditures on capital projects; we reduced our own resources to increase those of the provinces and municipalities; we sustained and enlarged the general purchasing power of the Canadian public both by tax reductions and increases in pensions and other welfare payments.

One year ago we were budgeting for a period of recovery. Our problem was to strike a balance. It was not yet a time for a severe application of fiscal restraint, but the situation did require a reduction in the stimulus which government fiscal policies had injected into the economic stream. We took a firm course designed to ward off the perils of inflation and to preserve the purchasing power of the Canadian dollar without retarding the forces of recovery.

In 1960 we have neither recession nor incipient recovery. We are in the midst of a period of marked expansion in the Canadian economy. We welcome it, but we do not wish to see it mushroom into a boom which would set loose the forces of inflation. What we must all desire is orderly growth without inflation. That must be the goal of policy in this year of expansion 1960.

To this end our aim, as I have stated in recent utterances, will be to avoid expenditures that are not strictly necessary now and to bring government revenues and expenditures into better balance. In this way we are deliberately seeking to assist the provinces, municipalities and business in meeting their borrowing problems by restricting our own Federal borrowing operations.

### Government Expenditures

There is always a high degree of interest on the part of the public and in the press at this season of the year as to the trend and volume of government expenditure in the coming year. That interest seems to be particularly evident this year. Some people speak as though it were a simple and easy matter for the government to make sweeping slashes in expenditure. Let me assure you that it is not.

It is well to remember that the government's responsibilities do not remain static from year to year. Increases in population necessitate higher expenditures in providing government services at the same level. The cost of most of our social security programs is on a per capita basis, rising automatically with population increases, which have been averaging 400,000 per annum. Much of the annual expenditure is already of a statutory nature, thus vastly reducing the area of expenditure which is subject to the pruning handiwork of the Treasury Board. Moreover, there are elements of government expenditure which are related directly to the growth of the national income. Furthermore, we are spending more government money on research, as we should. Our payments, both conditional and unconditional, to the provinces under existing programs are bound to rise substantially in the coming year. Hopeful as we are for agreed disarmament, it has not yet arrived, and in the meantime the cost of modern arms and equipment for our defense forces is constantly rising. Nevertheless, I think I may tell you that the estimates for the coming fiscal year have received at the hands of the Treasury Board the most searching review ever given to estimates of expenditure in any year in memory. The Treasury Board has worked diligently. The estimates will be tabled in the House probably about the end of January.

Let me add that I believe very simply that governments must practice what they preach to their people. They must set their faces against waste and search tirelessly for efficiency.

### Government Borrowing, Debt Management and Interest Rates

The fiscal measures which were taken in 1958 and 1959 were accompanied by far-reaching measures of debt management. I have pointed out on previous occasions that good debt management is essential to the maintenance of the purchasing power of the Canadian dollar and the achievement of sustained national development. It is at the very heart of national thrift and is vital to the realization of the economic goals of a free and competitive society.

The great Conversion Loan of 1958 achieved an unprecedented success. It proved to be a major anti-inflationary step. It removed a source of heavy pressure on the bond market and by nearly doubling the average length of our debt it enabled us to develop and carry forward a sound debt management policy. It has greatly contributed to the stable growth of the economy in the year just ended.

As the Governor of the Bank of Canada pointed out in a speech on Nov. 16: "The value of the Conversion Loan should not be underestimated. It was the most important single factor in the changed circumstances which made it possible for the net financing requirements of the government to be raised entirely from non-bank investors after September 1958, and therefore made it possible for monetary expansion to cease and comparative stability to be maintained for a considerable period thereafter."

In the fiscal year which ended March 31, 1959, the Federal Government borrowed $1,296 million of new money in the market. As I forecast in my budget, in the present fiscal year new money requirements should be reduced to some $850 million and if account is taken of the decision of the C. N. R. to repay to the government the proceeds of its public issue of last month, the Federal Government's requirements for new funds will be reduced by a further $300 million. In short, our new market borrowings for the fiscal year ending March 31, 1960, will be about one-half of our requirements of 1959. Moreover, our new market borrowings in the current fiscal year have all been raised from the savings of the general public, as the Governor noted, and therefore in a non-inflationary manner.

In the last four months the bond market has been stabilized and strengthened and there has been a notable return of confidence. Interest rates, it is true, have been high, but these rates have served to attract investors. The government's bond offering in September and the C. N. R. bond offering in December were both heavily oversubscribed. The recent 14th Canada Savings Bond campaign attracted the highest volume of subscriptions ever attained in a savings bond campaign—over $1.4 billion. I am not suggesting that there are no problems in the market, but I draw attention to the solid and constructive improvement evident since September.

### Public Confidence Striking

The return of public confidence has been striking. The public's willingness to purchase government bonds is in the last analysis the best test of its confidence. In 1955 the general public's holdings of Government of Canada securities were about $9 billion, by mid-1958 they had fallen to less than $8 billion. Today the public's holdings of Canada Bonds have $10¾ billion, an increase of $2¾ billion in 15 months. In other words, in 15 months the public's soldings of Canada Bonds have risen by 35%. Moreover, the public has in the same period increased its holdings of other Canadian securities, whether provincial, municipal or corporate by another billion dollars. This increase is in part a reflection of the more attractive interest rates prevailing, but it also demonstrates unmistakably the growing public confidence in the government's determination to resist inflationary pressures and to defend the value of our national currency.

The return of confidence in the bond market enabled the chartered banks to finance the enormous demand for commercial credit by the sale of their holdings of Canada Bonds in exchange for new savings of the public. Accordingly they disposed of over $1 billion of Government of Canada Bonds to meet commercial credit requirements which during the first nine months of last year rose by 25% and have remained at a level about 15% higher during the last three months. The extraordinary demand for bank credit arising out of expansion, the heavy selling of government bonds by the banks and the increase in net new borrowings through the sale of securities combined to exert a strong upward pressure on the structure of interest rates in 1959. This was not just a Canadian phenomenon; the United States experienced a similar pressure on credit and a corresponding rise in interest rates.

As we all know, the demand for capital associated with expansion together with the reluctance of many borrowers to utilize the capital market, placed a heavy strain on the resources of the banking system and in the spring and summer of last year, the banks, acting on their own re-

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to that growth. As a publicly-owned service, it will continue to keep pace with the expanding economy of this nation in the dawning era of the big jet.

### D. K. YORATH

**President, Canadian Western Natural Gas Co., Ltd. & Northwestern Utilities, Ltd.**

The general economy of Canada should show improvement in 1960 over 1959. Naturally there will be some soft areas but excluding the development of major labor-management crisis, the first year of the new decade should see most aspects of Canadian business flourishing. One area of our economy which I would not expect, on a nation-wide basis, to be quite up to the level of 1959 is that of residential construction, though I do not expect it to decline drastically.

Dennis K. Yorath

I hope the settlement of the steel strike in the United States can be taken as a sign that management, labor and government in all spheres recognize the necessity in the public interest of maintaining the 1960 economy on at least the same level of stability as 1959. This should be a matter of prime concern to those having any direction over the various facets of our economy, particularly as there is no indication that interest rates will cease to rise nor that money will become more readily available.

There still appears to be some uneasiness over foreign domination of Canadian industry, natural resources and finances. Unless steps are taken voluntarily by the foreign controlling companies to enable distribution of equity in Canada it has been suggested by some sources that our governments may take legislative action. I feel any such legislation is to be deplored in a sphere where industry can effect the corrective measures, itself, if any are required, and I believe in some instances they are.

I feel that perhaps something to be more fearful of in 1960 is the possibility of progress in the efforts of foreign labor interests to increase their participation, to the point of domination, of some Canadian labor organizations. If material success by foreign interests should be achieved along this direction it could have a serious effect not only on our economy but also upon our educational, philosophical and cultural life.

If approval is given to the exporting of additional quantities of natural gas from Canada by the senior governmental bodies of both Canada and the United States then projects, each involving the expenditure of hundreds of millions of dollars should get under way. The Alberta Government has already granted its approval, having assured itself that the citizens of that Province will be protected with ample gas reserves for many years to come. The opening up of the natural gas market will have a considerable beneficial effect upon the economy of Canada, particularly the Province of Alberta. This will result not only from the sale of the natural gas itself, the construction activity engendered by the export projects, but also from the utilization and marketing of the by-products of that gas. In this latter connection, of course, one of the problems is the distance that Alberta is from seaboard and the major continental industrial centers. This might be overcome to some extent by construction of pipelines specifically designed to transport such by-products. It is reported one or two such proposals are already under consideration.

All in all 1960 should be a bright year for Canada.

### F. W. YOUNG

**President & General Manager, Canada Foils, Ltd.**

The year 1960 heralds the start of a new decade for Canadian economy. Looking back over the 50's reveals a remarkable era of progress and development. It is hoped that this forward surge of accomplishment will continue well into the 60's.

We are being faced at this time with influences which had their birth in the past decade. Rapid expansion and high consumer credit resulted in a tight-money situation in 1959 which has not relaxed and its effect is still evident in deferred expansion programs.

Domestic competition is stiffening but the greatest source of concern is the increasing importation of low-cost foreign products which have a dire effect upon many Canadian industries. Production costs in Canada have already priced most Canadian manufacturers out of the export market—the same conditions are now threatening their domestic market against the low priced foreign made materials. Drastic measures must be employed by the Canadian industries to combat this price spiraling and labor must reassess its demands in this struggle for economic existence.

Now, due to foreign competition, the domestic market is also in jeopardy for many concerns. It provides a constant challenge to managements to offset these factors as well as possible. It is time, however, for labor to assess the dire threat of these factors to employment and to endeavor to cooperate with industry for labor's own protection.

Despite these ominous signs there is still a strong feeling of confidence in the future growth of Canada. Increasing population in Canada can only create new markets and despite stiffening competition, the average Canadian manufacturer is optimistic of the future and can foresee, for the next few years at least, continued progress.

The year 1960 will provide new challenges to all Canadians but there can be no looking back. Canadians have achieved a higher standard of living during the past ten years and are determined to maintain and improve their achievements. Canada, as a nation, is destined to become a leading country in world affairs and by the same token, the industrial and economic levels of Canada will experience a similar rise in magnitude.

# Prospects for New Growth in Canada's Economy in 1960

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sponsibility, were obliged to impose credit restrictions.

The restraints imposed by the chartered banks on the growth of overall total bank credit and their more selective policy of lending appears to have brought about a more orderly situation within the banking system. In the last three months for various reasons the banks have not been fully utilizing the funds available to them as a result of their reduced lending activity, and thus both their cash reserves and their overall liquid position have been maintained at levels well above the required ratio.

**Interest Rates Stable**

One consequence of these policies on the part of the banks has been to enable them to re-enter the market as purchasers of government issues. As a result the pressures on the market for short-term bonds and treasury bills have diminished. Interest rates have tended to level off and both of these circumstances have contributed to stability. There is also some reason to hope that the effects of the lending policies of the chartered banks will be to persuade those companies and other bodies able to finance themselves in the capital market to turn to this source of credit for funds for capital expansion. In this respect I wish to commend those corporations which in recent months have been prepared to face the capital market with realism. To the extent that the trend towards a greater use of the capital market develops more credit should be made available to smaller borrowers within the banking system.

In speaking of the improvement in the technical position in relation to bank credit, I should not wish to leave the implication that every borrower is receiving all the credit he seeks. Credit restrictions continue to impose difficulties for certain sections of the economy although there is no evidence that from the overall viewpoint they are interfering with the process of growth. The banks are continuing to be selective in the allocation of credit even though their capacity for lending has improved. Nor can we expect any sharp reversal in this situation. If the industrial and commercial expansion takes the forward surge in the spring and summer of this year that seems likely, it would be only reasonable to expect a recurrence of intense demand for bank credit.

It is clear that expansion places heavy demands upon our capital resources which are not unlimited. It would be unrealistic to assume that changes in the allocation of bank credit or greater use of the long-term capital market by business corporations would make capital as plentiful and interest rates as modest as they tend to be when the economy is not expanding. Let me add one final observation on the subject of interest rates. There are those who contend that a measure of inflation would today bring about a reduction in interest rates. This is another fallacy of the deepest dye. Inflation would tend to decrease total savings and to divert them away from bonds and other forms of investment. The inevitable result of inflation is to force interest rates still higher.

Today there is keen competition in the market place by Federal, provincial and municipal governments and business for the not unlimited supply of capital available there. In this situation the Federal Government can best contribute to facilitating the necessary financial operations of other borrowers by confining its own borrowings to the essential minimum, and that is what the Federal Government is doing. We are seeking deliberately to bring our revenues and expenditures into closer balance in order that we may not find it necessary to make new borrowings. As a consequence, I think that with the continued rise of the levels of income, employment and production, we may look forward to a further substantial improvement in our overall cash requirements. And thus we may hope that the market will be more and more left to the provincial and municipal governments and business.

In this connection it is our expectation that the increase in the ceiling on the interest on loans under the National Housing Act

from 6 to 6¾% will result in a re-entry of the approved lending institutions on a considerable scale into the mortgage field under the National Housing Act. This will both support house building activity in Canada and relieve pressure on government financing.

**Premium on the Canadian Dollar**

The current high premium on the Canadian dollar has given rise to further questions recently. I have dealt with this subject previously, but perhaps a more extended reference to the subject today is warranted. Let me stress at the outset that responsibility for exchange policy rests solely with the government. The Bank of Canada in this regard acts only as the government's agent.

In 1950 Canada stopped pegging the rate of exchange of the Canadian dollar and in 1951 abandoned foreign exchange control. From that time to this the value of the Canadian dollar in relation to the United States dollar and other currencies has been determined not by the government but by the forces of supply and demand operating in a free market. Since 1952 the Canadian dollar has been ruling at a premium in terms of the United States dollar. At first this was a matter of pride on the part of Canadians. It has for some time been and is a matter for concern. The premium has fluctuated, rising to 6¼c in 1957. Currently it is under 5%. It adds to the difficulties of our exporters and our gold mining industry; it has the effect of reducing tariff protection for Canadian producers and expanding our imports by making them cheaper.

It is regrettable that there is an element of misunderstanding prevalent as to the premium and its causes. This is illustrated in demands made from time to time for what is called "restoration of parity" between the United States dollar and the Canadian dollar.

**No Reason for Parity**

Permit me to observe in the first place that there is no existing reason why there should be parity between them. Each dollar is a form of managed currency, and the management of the two currencies is in different hands. The fact that they happen to bear the same name constitutes no reason for any precise equality between them.

In the second place, the exchange rate of the Canadian dollar is determined in an absolutely free market. Its value is not arbitrarily fixed by the government but results from the free play of economic forces, that is to say, the laws of supply and demand.

Why is the Canadian dollar ruling at a premium in terms of the United States dollar? Let us examine this question in simple terms. Whenever anyone, whether in Canada or the United States or any other country seeks to buy United States dollars with Canadian dollars, he is helping to create a demand for United States dollars. This demand arises from our merchandise imports, from our tourist expenditures abroad, from transfers of interest and dividends, from purchases of securities and other assets. Similarly anyone seeking to buy Canadian dollars with United States dollars or other foreign exchange is creating a demand for Canadian dollars. This demand for Canadian dollars arises from our merchandise exports, from foreign tourist expenditures in Canada, from foreign purchases of Canadian securities and from a whole host of other transfers of funds from foreign countries to Canada. Basically the exchange rate for the Canadian dollar is determined by the variations in the demand for Canadian dollars on the foreign exchange market and the supply of Canadian dollars on that market resulting from the millions of individual transactions of the type I have described. The effect of Canada's very large deficit in its commodity trade and other current account transactions tends to raise the value of the United States dollar in relation to the Canadian dollar. Indeed, the larger the trade deficit, the stronger is the upward pressure on the United States dollar as compared with the Canadian.

**Foreign Investment in Canada**

But other things are not equal or static. Many persons in the United States and other countries abroad are choosing to invest in Canada. In order to make their investments they must purchase Canadian dollars with United States dollars or other foreign exchange. This creates a demand for Canadian dollars and an upward pressure on the value of the Canadian dollar in relation to the United States dollar. The volume of demand by holders of United States dollars and other foreign exchange for Canadian dollars for investment and other purposes has tended to outrun the volume of demand for foreign exchange for settlement of trade deficits and other purposes. The consequence is the substantial premium on the Canadian dollar.

In the net result the premium is a result of the operation of the forces of supply and demand in a free market. Our dollar has a higher value than the United States dollar because holders of so many United States dollars wish to exchange them for Canadian dollars particularly for investment in Canada, and they wish to invest in Canada because they have confidence in our country and its financial soundness and are attracted by the returns paid on capital in Canada, for ours is a country chronically short of capital.

The next question that is asked, and properly, is cannot the Canadian Government intervene to eliminate or reduce the present premium? The answer is—yes, but.

In the first place, the Canadian Government could take steps to shut out or discourage capital from abroad or it could follow policies that would disturb external confidence in Canada and its financial soundness. It could, for example, follow inflationary policies. Would anyone advocate this?

In the second place, it could take steps to increase the deficit in our commodity trade with the United States. I have heard no support for such a proposal.

In the third place, it could ask Parliament to reimpose foreign exchange control as in wartime, and thus prevent purchases and sales by Canadians of United States dollars except under permit. It could, for example, refuse to grant licenses for the import of capital or certain types of capital. This course of action would, however, not be consistent with the desire of Canadians, which is shared by free peoples generally, to move away from controls of this kind as their economic strength grows.

**Artificial Measures Imprudent**

In the fourth place, the government could employ Canadian dollars belonging to the people of Canada to buy and hold United States dollars in order to create an artifically high value for the United States dollar expressed in terms of the Canadian dollar. No one knows how many Canadian dollars would be required. But it would be a huge sum. It would be necessary to raise the money by increased borrowing or taxation. If the two currencies were brought to a quoted equality at any given moment as the result of such artificial measures they could not be expected of their own accord to continue in that equal relationship. No one knows how many more dollars would be required to maintain equality between them. The Minister of Finance would be placed in the position of taxing the Canadian people or borrowing on the market to provide Canadian dollars which he would then convert into huge holdings of United States dollars. This is not a use of the money of the Canadian taxpayers which I would be prepared to recommend to my colleagues.

In the Exchange Fund today the Minister of Finance holds approximately $1.9 billion — about half in gold and half in United States notes and Treasury bills. This Fund has for years been employed merely to eliminate wide fluctuations in exchange quotations in the two currencies from day to day, not to influence the long-term trend in exchange rates. The sums required for this modest purpose leave no doubt as to the huge sums which would be required to raise the United States dollar today to equality with the Canadian dollar and to hold it there indefinitely artificially.

**Higher Gold Price Advocated**

In the fifth place it has been suggested that the Canadian Government could reduce or eliminate the premium on the Canadian dollar by increasing the price it pays for gold. The price the Government pays for gold is now determined by taking the world price of gold, namely $35 U. S. per ounce and converting this into Canadian dollars at the current rate of exchange. Let us consider for a moment the consequences of an artificial increase in the price paid by the Government of Canada for gold. If a higher price were paid *only* to Canadian gold producers this would have no immediate consequences on the exchange rate for the Canadian dollar. It would in effect be an increase in the subsidy on gold production over that which Parliament has authorized through the Emergency Gold Mining Assistance Act. To limit the payment of the increased price to Canadian-produced gold it would, of course, be necessary to prohibit the import of gold from outside Canada. However, if it is desired to influence the exchange rate by arbitrarily raising the price we pay for gold, then we must be prepared to pay the higher price to foreign gold. By offering a higher price in Canadian dollar terms than gold was really worth at the current exchange rate, we would certainly attract gold from the four corners of the earth. Anyone holding gold which he wanted to convert into United States dollars would sell it to us at the artificially high price and convert the Canadian dollar proceeds into United States dollars. This process would, of course, soon result in a fall in the value of the Canadian dollar to the level determined by the relationship between the arbitrarily fixed price of gold in Canada and the world price of $35 per ounce. In other words, this proposal turns out, on analysis, to be a proposal that the Government of Canada should arbitrarily determine what the exchange rate should be from day to day or week to week by fixing the price it is prepared to pay for gold and standing ready to buy unlimited quantities of gold at that price. The Government does not seek any such arbitrary power. And I point out, moreover, that the procedure suggested would require us to use Canadian dollars raised from the Canadian people by taxation or by new borrowing for the purpose of adding to our reserves of gold.

**Premium the Lesser Evil**

These are five courses that are open to the Government. Notwithstanding long personal study of the problem I know of no others. I dislike the present high premium and I am well aware of the losses it causes for some business interests. But I have been forced, reluctantly, to the conclusion that the disadvantages of the alternatives open to us outweigh the disadvantages of the premium.

It follows from the description I have given of the factors operating in the exchange market that borrowings in the United States by provincial and municipal governments and business have the effect of raising the premium. The sums they raise in United States dollars must be converted into Canadian dollars for use in Canada.

I may add that the Premier of

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one Province which depends to a large extent on exports of its raw materials recently asked the Federal Government to wave a magic wand and eliminate the premium on the Canadian dollar. I informed him that as Minister of Finance I am already holding about $1 billion United States dollars. He offered to buy them from me. When I asked at what price he immediately stipulated for a 10% discount on the United States dollar. Consistency, what a gem thou art! I declined to take responsibility for driving up the premium on the Canadian dollar by accepting his terms.

The course of the exchange rate in the future will depend, as in the past, on the behavior of the inward and outward movement of capital as well as on the course of our commodity service imports and exports. It will be symptomatic of internal and external conditions affecting the Canadian economy. It is not, therefore, something which is susceptible to restriction or control by the Government, short of the complete and direct kind of control which was applied in wartime. The exchange value of the Canadian dollar would certainly be much lower that it is today if external investors lost confidence in the future of our economy, or if Canada were thought to be on the road to inflation, or if our exports were to lose ground in competing for markets abroad, or if our domestic manufacturers became unable to meet the normal competition of imports. I hope the Canadian dollar will never lose any of its exchange value for these reasons.

**Foreign Capital Investment in Canada**

Foreign capital investment in Canada is, as I have indicated, responsible for the existing high premium on the Canadian dollar. It also gives some Canadians concern over the extent of foreign ownership and control of Canadian resources and industry or, alternatively, the extent of Canadian indebtedness to foreign countries.

Capital inflow into Canada in 1959 has undoubtedly again exceeded $1 billion, and 80% of it came from the United States.

Beyond question the rapid development of our resources has been greatly aided by investment of capital from abroad. Until Canada generates far more capital than at present it will continue to need capital from abroad, unless we were prepared to be content with a much slower rate of development of our resources. The Canadian Government will continue to maintain a climate hospitable to investment of capital from abroad.

**Savings and Investment**

Most countries of the world today are suffering from a shortage of capital. Canada has always been an importer of capital. It is by far the largest importer of capital in all the world. Our Canadian economy has been absorbing capital on a scale rarely matched in the world's history. Gross public and private investment has been maintained at 26% of Gross National Product, compared with approximately 18% in the United States. Canadian domestic saving, including provision for depreciation, has been running at over 20% of Gross National Product. This saving rate is higher than that in the United States and many other countries. If the Canadian economy is to continue to absorb capital on the same scale, we must have either a still higher rate of domestic saving or a continued high rate of importation of capital.

It therefore behooves us to endeavour to the utmost of our power to generate capital within Canada. That means that we shall need more saving by Canadians and the marshalling of their savings into capital and the wise investment thereof in Canada. The policies of the government will continue to be designed to encourage the creation of more Canadian capital as the key to some of our most pressing national problems.

The suggestion for increased saving on the part of individuals is based not only on the greater security which saving brings to the persons or families concerned, but on the contribution that saving makes to the growth of our country. As such, it will provide the capital that our industry needs and thus help to increase our productivity and our standards of living in the years ahead. As such, increased saving will lessen the need for foreign borrowing and enable Canadian industry to expand with capital funds contributed by Canadians themselves.

It should not be forgotten that an increase in savings is likely to lead to a greater flow of funds, in one way or another, into new capital investment in Canada. We have had a great improvement in the machinery for collecting and distributing loanable funds in this country over the last few decades and our capital markets are becoming more unified, more interrelated. As a result the temporary or more permanent savings of individuals, private businesses and corporations (not to speak of governments and other public bodies) are easily and quickly made available for capital investment and other similar purposes. The millions of Canadians who put aside their savings in the form of bank accounts, insurance policies, pension funds and the like are contributing in this way to the growth of Canada. The further encouragement of this practice should occupy a high position on our list of priorities.

This country owes much in its history and development to the virtues of thrift and hard work. It is the duty of the government to assist in the cultivation of the habit of saving. Those who practice thrift are entitled to the reward of the protection of their savings against the ravages of inflation. I shall continue to do all that lies within my power as Minister of Finance to encourage and protect the savings of the people, however small.

People must have confidence in their currency. If they lose that confidence, they will in self-defense either consume their savings or turn to unreasoning speculation.

**Conclusion**

We stand at the threshold not only of a new year but of a new decade as well. In this decade Canada will attain her 100th birthday. Those of us who live to celebrate that historic event will, if the world is given peace, look with pride upon a greater Canada, more developed, more mature, more populous by far than the Canada of 1959. We are privileged to participate in the building of the greater Canada of that bright future. We may be thankful that the days of Canada's building are not only of the past.

Nineteen sixty should be a year of new growth in almost all sectors of the Canadian economy. If Canadians can hold production costs in line and demonstrate renewed efficiency as producers and salesmen, and if they are prepared to take the self-denying measures needed to resist the lurking dangers of inflation, the present period of expansion could carry the Canadian economy far beyond the high watermarks heretofore attained. With wisdom, courage, self-discipline, self-reliance and forbearance, we can, if given peace, look forward to an era of sustained growth outstripping that of any comparable nation of the world. The message which I should like to convey to Canadians at the threshold of this new year and decade, therefore, is a challenge in simple terms: "Work and Save."

*An address by Mr. Fleming before the Canadian Club of Toronto, Canada, Jan. 11, 1960.

# "Outer Seven" Trade Group Hurting Canada

Europe's newly-formed "Outer-Seven" free trade area could have an adverse effect on some of Canada's exports, according to the Bank of Montreal Business Review for January, just issued.

How serious the effect will be, however, is difficult to assess at this stage, the bank review says, pointing out that the agreement has not yet been ratified by the member governments, that initial action on the new agreement will not be taken until mid-year, and it may take the full decade of the 1960s to be achieved.

"In observing the unfolding of this and other European and world trade agreements, it is worth keeping in mind some broad facets of Canada's vital interests," the review states, adding that the new association differs from the already-established European Economic Community, or Common Market.

"The Common Market purports to be but the first step, albeit a major one, towards the ultimate harmonization of economic, fiscal, monetary, agricultural and foreign policies and of transportation and social systems. . . ." By contrast, the new Outer Seven is a plan for a free trade area only.

"Of direct importance," states the review, "is the fact that the United Kingdom . . . has undertaken gradually to reduce to zero its tariffs on industrial products of six non-Commonwealth countries in Europe.

"Examination of the components of Anglo-Canadian trade suggests, however, that most of our exports to Britain will not be affected. . . . The outlook for Canadian exports of some primary products and manufactured goods is, however, less clear. In time such products may find any preferential or free-entry advantage they now enjoy in the U. K. market diminished, removed, or even reversed, by the reduction of tariffs within the free trade area," the bank says.

"Canada's fundamental interest is in the expansion of world trade along liberal and multilateral lines," the review continues. "At the same time, the Seven, which are among the world's 'tradingest' nations, were motivated as well by the positive desire to increase trade not only between themselves but also with the Common Market and on a broader international front," the bank observes.

Pointing out that Canada, with more per capita trade than virtually any other country, has thrown its support behind moves to liberalize world trade on a multilateral basis, the review concludes: "The recent inauguration of the European Free Trade Association may come to be regarded as one of the forward steps in the long postwar series of developments that, despite difficulties, have widened the channels of international commerce."

# AS WE SEE IT

*Continued from page 1*

that such an inquiry must yield results not always in keeping with all the excellent generalizations to be found in these annual documents of the President. We begin with certain elements of the broad philosophy which seem, and have for a good while past seemed, to permeate much of the thinking of the President and the leaders of his party as well as of many of their political opponents. After delineating plans for a balanced budget (to say nothing of a substantial surplus) and after paying a high compliment to the Treasury and the Federal Reserve in their efforts to prevent inflation, the President continues:

"But these government policies must be supplemented by appropriate actions, especially with respect to profits and wages. In our system of free competitive enterprise and shared responsibility, we do not rely on government alone for the achievement of inflation-free economic growth. On the contrary, that achievement requires a blending of suitable private actions and public policies. Our success in realizing the opportunities that lie ahead will therefore depend in large part upon the ways in which business management, labor leaders and consumers perform their own economic functions.

"A well-informed and vigilant public opinion is essential in our free society for helping achieve the conditions necessary for price stability and vigorous economic growth. Such public opinion can be an effective safeguard against attempts arbitrarily to establish prices or wages at levels that are inconsistent with the general welfare."

What the President and all too many of the other public figures of this day and of the past two or three decades appear to forget is that only a free market place can assure both equity and progress in matters such as these—a market place, that is free not only of government controls and government interference but of monopoly in any form or degree. This blind spot in the vision of virtually all politicians permeates all or nearly all of the work of those who would have government take innumerable roles it should never undertake and depend upon "public opinion" to direct and control this, that and the other relationship in the economic system.

But it is not only in such invalid general philosohy that the Administration is lacking as have been the others that preceded it for many years—unless, indeed, it be these misunderstandings that are responsibile for broad policies and programs which definitely are not in the public interest, and certainly not conducive to that continued progress and inflationless growth that the President wants and half-promises for the future. We need go no further than the budget figures that the President has now presented to find abundant evidence of faulty choice of policies and unfortunate development of programs. In the first place it is evident on the face of the figures that the budget balance and the budget surplus of which the President makes so much is to be achieved—if they are achieved — not by badly needed pruning of outlays but by increased taxes and hopes of better yields from existing taxes. Such a balance and such a surplus are, of course, far better than deficits, but they can not be expected to bring the economic blessings that could be obtained by reducing outlays. The fact is that the total of budget outlays proposed by the President for the fiscal year beginning June next — the period in which the President hopes for a substantial surplus—are larger than any since the end of World War II with but one exception and that was in 1959 a year in which not the Democratic wasters but President Eisenhower himself was in the White House.

The economy of this country is tough. It has withstood many blows and continued to grow in vigor and volume. It is concededly possible that it can and would continue to do so even if required to carry indefinitely the sort of burdens that the President's current budget would impose upon it. It is, nonetheless, certain that it would do much better and reach the goals asked of it with much greater certainty and ease if it were not asked to carry these burdens which serve no economic purpose whatever. The President now asks us to put up $5.6 billion in 1961 to help the farmers of the country stay at work producing much more of their products than can be marketed any where in the world. The figure for the last year of the Truman regime (1952) is a good deal less than one-fourth that amount. Can we really afford such profligacy?

Veterans' pensions and the like (now euphoniously termed "Veterans' Services and Benefits") are to cost us nearly $5.5 billion. Can even we afford that? "Public Assistance" is to be higher than in recent years of recession. The "pork barrel" is back in service with a vengeance. And so our year of "surplus" goes.

There is much more, but this is enough to make it clear that we are not to have real cooperation from government in our quest for economic progress.

# President Offers View on the Outlook for the Economy

**Major conclusions and recommendations of the Economic Report of the President to Congress are summarized in President Eisenhower's "Letter of Transmittal" accompanying the Report. Continuation of real recovery is predicted providing prescribed recommendations are adopted by Congress. The "Outlook" section of the Report sums up fundamental factors behind the business upswing forecast and foresees, however, continued deficit in balance of payments.**

The President's *Economic Report* delivered to Congress last Jan. 20, confidently expects the real GNP fourth quarter (1959) recovery at the annual rate of 3½%, despite the steel strike, to continue favorably this year and beyond, providing recommendations made are adopted. They include: adoption of the Administration's budget, utilization of estimated fiscal 1961 budget surplus of $4.2 billion toward debt-retirement, removal of 4½% interest rate ceiling on Government bonds, and proper blending of monetary-fiscal controls and of reliance placed primarily on a free but responsible private economy with particular regard paid to wages and profits.

**Pres. Eisenhower**

The Council of Economic Advisers, in the *Economic Report*, viewed the outlook optimistically, and pinpointed expansion in: plant-equipment and inventory spending, State-local outlays, still sizable construction activity, greater supply of investment funds, and increased Federal outlays in latter half of fiscal 1961 for their rosy conclusion. They predicted also, that exports will increase at a faster rate than imports but expect there will be, nevertheless, a large over-all deficit in the balance of payments.

*The text of President Eisenhower's Letter of Transmittal and that part of the Economic Report dealing with the Outlook follow:*

**To the Congress of the United States:**

I present herewith my Economic Report, as required by Section 3(a) of the Employment Act of 1946.

The Report was prepared with the advice and assistance of the Council of Economic Advisers and of the heads of the executive departments and independent agencies directly concerned with the matters it discusses. It summarizes the economic developments of the year and the steps taken in major areas of economic policy to promote the sound expansion of employment, production, and income. It also puts forward a program for the year 1960 which, in the context of present and prospective economic conditions, would effectively implement the purposes of the Employment Act.

The major conclusions and recommendations of the Report are set forth below, in part in the words of the Report itself.

By the first quarter of 1959, the recovery that started early in 1958 had already carried production and income to levels higher than ever before attained in the American economy. A considerable further advance was scored during the remainder of 1959, despite the deep effect of the 116-day strike in the steel industry.

**Cites Considerable Recovery Made**

The Nation's output of goods and services in the fourth quarter of 1959 was at an annual rate of $482 billion. When adjusted for price changes, this rate of output was 3½% higher than the rate attained in the corresponding period in 1958. By December, 1959, total employment had reached a record level, 66.2 million, on a seasonally adjusted basis. And personal income payments in December were at an annual rate of $391 billion, $24 billion greater than a year earlier. After adjustment for increases in prices, the rise in total personal income in 1959 represented a gain of nearly 5% in the real buying power of our Nation.

As we look ahead, there are good grounds for confidence that this economic advance can be extended through 1960. Furthermore, with appropriate private actions and public policies, it can carry well beyond the present year.

However, as always in periods of rapid economic expansion, we must avoid speculative excesses and actions that would compress gains into so short a period that the rate of growth could not be sustained. We must seek, through both private actions and public policies, to minimize and contain inflationary pressures that could undermine the basis for a high, continuing rate of growth.

**Recommends Three-Point Formula**

Three elements stand out in the Government's program for realizing the objectives of high production, employment, and income set forth in the Employment Act: first, favorable action by the Congress on the recommendations for appropriations and for measures affecting Federal revenues presented in the Budget for the fiscal year 1961; second, use of the resulting surplus, now estimated at $4.2 billion, to retire Federal debt; third, action by the Congress to remove the interest rate limitation that currently inhibits the noninflationary management of the Federal debt. Numerous additional proposals, many of which are described in Chapter 4 of the Economic Report, will be made to supplement the Federal Government's existing economic and financial programs.

Following the budget balance now in prospect for the fiscal year 1960, these three elements of the 1960 program will strengthen and be strengthened by the essential contributions to sustainable economic growth made through the policies of the independent Federal Reserve System. Fiscal and monetary policies, which are powerful instruments for preventing the development of inflationary pressures, can effectively reinforce one another.

But these Government policies must be supplemented by appropriate private actions, especially with respect to profits and wages. In our system of free competitive enterprise and shared responsibility, we do not rely on Government alone for the achievement of inflation-free economic growth. On the contrary, that achievement requires a blending of suitable private actions and public policies. Our success in realizing the opportunities that lie ahead will, therefore, depend in large part upon the ways in which business management, labor leaders, and consumers perform their own economic functions.

A well-informed and vigilant public opinion is essential in our free society for helping achieve the conditions necessary for price stability and vigorous economic growth. Such public opinion can be an effective safeguard against attempts arbitrarily to establish prices or wages at levels that are inconsistent with the general welfare. Informed public opinion is also necessary to support the laws and regulations that provide the framework for the conduct of our economic affairs.

**A Free Responsible Economy**

Further progress is needed in establishing a broad public understanding of the relationships of productivity and rewards to costs and prices. It would be a grave mistake to believe that we can successfully substitute legislation or controls for such understanding. Indeed, the complex relationships involved cannot be fixed by law, and attempts to determine them by restrictive governmental action would jeopardize our freedoms and other conditions essential to sound economic growth.

Our system of free institutions and shared responsibility has served us well in achieving economic growth and improvement. From our past experience, we are confident that our changing and increasing needs in the future can be met within this flexible system, which gains strength from the incentive it provides for individuals, from the scope it affords for individual initiative and action, and from the assurance it gives that government remains responsive to the will of the people.

DWIGHT D. EISENHOWER.

* * *

**Economic Report's Outlook**

Although it is always difficult in a dynamic, free economy such as ours to depict in advance the course likely to be taken by production, employment, and income, present indications warrant the expectation that the expansion now in progress will be extended through 1960. And there are good grounds for belief that, with appropriate public policies and private actions, the expansion can continue well beyond the present year.

**Prospective Expansion of Demands**

Past developments and present conditions clearly suggest that the demands of business concerns for capital goods and for inventories will be especially important factors in the year ahead. Expenditures on capital goods have been rising for more than a year and should continue upward in 1960. In part, and especially during the early months, the increase will represent a catching-up on projects delayed or postponed because of shortages attributable to the steel strike. Chiefly, however, capital investment should rise in response to favorable underlying factors now discernible and likely to strengthen as the year progresses. Surveys of businessmen's intentions, and the increased volume of contract awards and of new orders for industrial machinery, confirm this outlook. A good demand from the farm economy for machinery and equipment may also be anticipated.

Expenditures for residential construction, a second major category of capital investment, are not likely to be as high as in 1959. However, the extent of the decline should be limited, and activity in this sector of the economy should exceed that of most recent years. Outlays for modernization and alterations should be a steady expansive force in the building industry.

Within the aggregate of government outlays, Federal expenditures for goods and services should change little in the first half of the year; but later, in line with provisions in the fiscal 1961 budget for the development of water resources and other public works, and for space and aviation programs, they should increase moderately. The upward trend of expenditures at the State and local level, which reflects particularly the provision of services needed by the growing urban population, may be expected to continue, though possibly at a slower rate. The construction of schools, public service enterprises, and community facilities in general is expected to advance moderately and to outweigh declines in activity that occur under the Federal-aid highway program as a result of the mandatory reduction in apportionments under the present law.

Changes in investment in business inventories are likely to be less regular during the year than the changes in final demands. Restocking needs are clearly apparent, not only for steel but also for many steel-using intermediate and finished products; and further additions to inventories will be required throughout the economy as production and final sales increase. Inventory expenditures and the other outlays noted above should contribute to a strong expansion in production, employment, and income. The increase in employment should exceed that of the labor force and, correspondingly, unemployment may be expected to fall. Within this context, consumer incomes and expenditures may be expected to increase substantially during the year. Also, consumer confidence is favorable to an increasing volume of purchases of consumer durable goods.

The financing of the investment needs outlined here, together with a significant volume of consumer credit, will make strong demands upon the Nation's capital and credit markets. At high levels of income and savings, a greater supply of investment funds may be expected. The sizable Federal budget surplus projected for the fiscal year 1961 would be helpful in relieving pressure on the supply of funds.

**Balance of Payments Prospects**

A moderate improvement in the United States balance of international payments seems to be ahead in 1960. Imports of capital equipment and consumer manufactures may, on balance, continue their upward trend. And, as industrial production continues to rise, imports of industrial materials may grow, though presumably more slowly than in the recovery phase following the 1957-58 recession. On the other hand, the particular supply and demand situations noted earlier in this chapter, which have been responsible for the rapid rise of certain imports, are shifting; these imports are now expected to increase less rapidly, and some of them may even decline. The growth of total imports, therefore, may well be considerably smaller in 1960 than the rise in the period from early 1958 to mid-1959.

Exports should gain from the strong expansion of production and investment that is proceeding in the industrial countries abroad. This expansion should benefit United States sales indirectly also, as the primary producing countries find their purchasing power raised by their higher exports to the industrial countries. Moreover, certain major exports that declined in 1959, as discussed above, may cease to decline in 1960, or may increase.

On this appraisal, exports in 1960 should rise appreciably more than imports. Also, receipts from services are expected to rise faster than payments for services and military expenditures abroad. Net exports of goods and services, as registered in our national income accounts, should show a positive balance. On the other hand, new United States investment abroad may increase, especially if interest rates in other countries continue to rise. Therefore, the over-all payments deficit may still be relatively large in 1960. To assist in attaining a needed adjustment of the balance of payments consistent with our goal of promoting multilateral world trade, a strengthening of exports continues to be essential. The level of exports will depend on such fundamental conditions as the rate and regularity of expansion of activity abroad, the progress of other countries toward more liberal trade policies, and our own efforts to strengthen the competitive position of United States products in foreign markets.

**Conditions for Sound Advance**

Our success in realizing the opportunities that 1960 presents, and for extending economic growth at a high and stable rate into the future, will depend upon the actions of business management, labor leaders, and consumers, as well as on the policies of Government, toward maintaining the balance in our economy that is required for sustainable growth. **A Federal program for 1960 that is designed to help achieve our national economic objectives is offered in Chapter 4, together with suggestions for appropriate private action.**

# Canadian Exchs. Name Officers

Eric William Kierans has been appointed President of the Montreal Stock Exchange and the Canadian Stock Exchange.

Mr. Kierans who is presently Professor of Finance and Director, School of Commerce, McGill University, Montreal, will take over his new duties in April of this year.

Ernest H. McAteer was reelected Chairman of the Governing Committee of the Montreal Stock Exchange by acclamation, January 21. Mr. McAteer is a Partner in the stock brokerage firm of Graham & Co. and served on the Governing Committee since 1955. He was Chairman of the Board of Management of the Canadian Stock Exchange from 1953 to 1957.

J. E. Chaput of Brault & Chaput was re-elected by acclamation Vice-Chairman. Mr. Chaput has been a member of the Montreal Stock Exchange since 1933 and has served in the Governing Committee for the past 14 years.

W. T. Moran of Greenshields & Co. Limited was re-elected by acclamation Secretary-Treasurer. Mr. Moran has served on the Governing Committee for the past two years.

G. L. Hudon of Morgan & Co. Ltd. was elected by acclamation to the Governing Committee. Mr. Hudon is replacing H. R. McCuaig of McCuaig Bros. & Co. Ltd.

V. Fowler of Jones Heward & Co. was elected a Trustee of the Gratuity Fund for a period of three years.

Members of the Governing Committee elected for the year 1960 are as follows:

Governors—(regular members): H. K. Crabtree, Baker, Weeks & Co.; J. R. Hughes, Royal Securities Company; F. G. McArthur, A. E. Ames & Co.; H. E. Murray, Nesbitt, Thomson & Co.; W. L. S. O'Brien, O'Brien & Williams.

(Advisory members): S. J. Langill, Hugh, Mackay & Co.; G. L. Hudon, Morgan & Co. Ltd.; S. C. Scobell, Jones Heward & Co.

## Robert Mauck Opens

(Special to The Financial Chronicle)

DENVER, Colo. — Robert E. Mauck, Jr. is engaging in a securities business from offices at 2120 South Ash Street, under the firm name of Robert E. Mauck Investments.

## Peters, Writer Adds

(Special to The Financial Chronicle)

DENVER, Colo.—George Joseph, Jr. has been added to the staff of Peters, Writer & Christensen, Inc., 724 Seventeenth Street.

## Form American Secs.

LITTLE ROCK, Ark.—American Securities Investment Co. has been formed with offices at 25 Talmadge Drive to engage in a securities business. Officers are Audit Kincannon, President; and T. B. Kincannon, Secretary.

# When Lease Financing Is Most Advantageous

*Continued from page 12*

only serves to obscure this basic issue.

After all, by financing the acquisition of assets with borrowed money, a company avoids tying up its present working capital. But suppose that a bank or an insurance company were to solicit loans on the following basis: "Use our money to finance your fixed assets instead of disturbing your own funds. Your money can earn 20% in the form of working capital versus the 7% you will pay to use ours." I think it would find few takers so long as there were other lenders offering money at 5% or 6%. Why shouldn't the same reasoning apply to lease financing.

**Questioned Cash Flow Advantages**

(2) We frequently hear that leasing makes it possible to pay for an asset as it is used, and out of pre-tax earnings. This is true but by no means unique. The pay-as-you-go feature is characteristic of all credit arrangements. And while rent is in most cases a deductible expense item, so are interest and depreciation. The real question is which alternative offers the greatest cash flow advantages.

(3) Another claim for leasing is that it offers a hedge against inflation. You get the asset today and pay for it with depreciated dollars in the future. This again is true of all types of debt financing, not just leasing. Furthermore, leasing suffers in comparison with direct borrowing in that the company does not own the asset after it has finished paying for it. With the prospect of continued inflation, the loss of residual values may prove a substantial disadvantage to companies leasing their assets.

(4) It is frequently pointed out that leasing avoids any dilution of common stock ownership or control. This is an advantage when compared to equity financing, but it is an advantage which is shared by all forms of straight debt financing.

(5) Another advantage claimed for leasing is that it provides 100% financing of an asset. This feature is unique when compared to a secured loan, which is generally limited to some percentage of the collateral. However, most industrial loans today are unsecured, based upon the general credit of the borrower. The lessor also looks primarily to the general credit of the lessee as the security for his investment.

I think that these represent the principal arguments commonly advanced in favor of lease financing, with the exception of two which I will touch upon shortly: possible tax benefits, and the so called "balance sheet" advantages.

My contention is that when lease financing is viewed as merely another form of borrowing, these claimed advantages will not stand up under any logical analysis. By this I do not mean to imply that there is no case for leasing. I merely mean that the reasons which are usually called upon to justify it are the wrong ones.

**When Leasing Is Justified**

An approach which I submit as a more realistic basis upon which to evaluate leasing proposals is the following:

Lease financing should be utilized whenever it can be justified in comparison with other debt financing alternatives. By this I mean that it must either:

Offer cost savings over direct borrowing,

Or, it must be available where an equivalent amount of debt financing is not available,

Or, it must offer some offsetting advantage which in the opinion of management justifies its higher cost.

Let's examine these three alternatives in order.

The question of relative costs involves the consideration of many factors. Two that come to mind immediately will generally work to the disadvantage of leasing.

One is the fact that investors will normally seek a higher return on funds advanced on the basis of a lease as opposed to a direct loan to the same company. This differential is commonly in the range of from ½ of 1% to 1%.

The other involves the disposition of the asset upon the termination of the lease. If the asset is lost to the lessee or if he must then repurchase it or continue to pay rent for it, this represents an added element of cost.

Despite these possible disadvantages, there can be offsetting cost savings implicit in a lease arrangement.

For instance, leasing may offer certain tax benefits. This area represents a complex subject in itself and I shall not even attempt to cover it. Some possible tax advantages which I might mention in passing, however, include the following:

The possibility of cash flow advantages through the more rapid write-offs of the leased asset. This used to represent a substantial advantage for leasing, but this advantage has been largely nullified by the accelerated depreciation options introduced in the 1954 code.

Or, the possible advantage of being able to write off land values for tax purposes through leasing. The validity of this advantage depends largely upon the extent to which the lessee discounts the potential value of the land at the expiration of the lease.

Finally, there can be advantages in the sale and leaseback of older assets which will result in a substantial capital loss or capital gain, where they can be effectively utilized by the Company.

All of these potential tax savings should be carefully scrutinized in the light of the latest tax rulings, of course. But to the extent that they are valid, they should be taken into consideration in any cost comparison.

Another possible cost advantage of leasing can accrue to companies engaged in production under "cost-plus" government contracts. By leasing equipment under leases tailored to the term of the contract, the company can charge off the full cost of the equipment to the government. If it were owned, the equipment would have to be depreciated over its normal life.

There are other possible cost differentials, such as the savings on the purchasing and disposal of vehicles which the fleet leasing companies claim they can effect. All of these cost factors must be taken into consideration in determining the advisability of financing by means of a lease. The question of the methodology to be used in making such a comparison is a highly complex one and there are several possible approaches. Perhaps the simplest is to compare the lease arrangement with ownership financed by direct borrowing at the Company's current borrowing rate, assuming a repayment schedule equivalent to that which the lease entails.

Another approach, that is particularly adaptable to those companies which use the discounted cash flow approach to capital investment decisions, essentially involves reducing the lease payments to an equivalent amount of debt and then computing the return offered by the project under a lease arrangement, independent of its financing cost. A similar calculation can then be made for ownership and the two rates of return compared.

Such calculations of relative costs lose most of their significance in those situations where the leasing alternative is available to a company that could not raise an equivalent amount of money through any form of direct borrowing. Considering the nature of the lease financing process, it is doubtful that situations of this sort will be common. As I pointed out earlier, the ultimate sources of funds for lease transactions are institutional investors who are primarily interested in the credit standing of the lessee. These institutions will not usually finance a lease transaction for a company to which they would not be willing to lend an equal amount on a direct basis.

There are possible exceptions to this. One is where existing loan agreements or indentures restrict additional borrowing but will permit additional leasing. However, restrictions on lease commitments are now common in loan agreements and it can be expected that they will become even more common as the use of lease financing becomes more widespread.

Another possibility is that a manufacturer may extend lease terms to a customer whose credit standing would not otherwise justify the amount of debt involved. The manufacturer may be willing to assume the additional credit risk in order to make the sale.

**Other Advantages**

But even where other forms of borrowing are available at a lower cost, might there not be some offsetting advantage inherent in the lease alternative which would justify the higher cost? This, of course, is inevitably a matter of judgment for each individual company, depending upon the relative weighting given to certain factors. There are several such possible advantages that might be mentioned.

I think that by far the most important is the so-called "balance sheet advantage" of leasing. We often hear that leasing does not disturb existing credit lines, or that it enhances a company's financial ratios. More to the point, there exists the possibility that since lease obligations do not appear on the balance sheet, their existence will not affect the company's credit standing. As a result, through a combination of leasing and borrowing, a company might be able to secure a greater total amount of credit than it could through borrowing alone.

This possibility raises several important questions. The first, naturally, is whether or not this advantage is a valid one. After all, the same institutions that finance lease deals are also the primary sources of borrowed funds. Is it reasonable to expect that these investors will make investments on the strength of lease obligations and then ignore those same obligations in evaluating the lessee's credit standing for other purposes?

The *Harvard Business Review* Survey which I cited earlier sheds some light on this question. The respondents were asked whether in making an analysis of a company's credit standing they took lease obligations into consideration where they were known to be material.

Virtually all of the respondents indicated that they did. Some 77% of the analysts indicated that they make use of formal techniques in evaluating lease obligations. These include capitalizing lease rentals to obtain an equivalent amount of debt to be added to the balance sheet and adding rentals to interest in computing the coverage of fixed charges. The remaining 23% presumably employ informal procedures.

**Considers the Financial Community's Attitude**

I think that there are some qualifying comments that should be made here with respect to the attitude of the financial community toward lease obligations and the bearing which this attitude should have upon a company's decision as to whether or not to use lease financing.

First of all, there is strong reason to doubt that the analytical procedures being employed by financial analysts are as comprehensive as the above figures would suggest. A follow up survey led the authors of the *Harvard Business Review* article to conclude that many of the respondents had indicated what they thought should be done, rather than what they do as routine practice. My own feeling is that the present evaluation of lease obligations in financial analysis is neither as all-inclusive nor as refined as it might be. Some of the reasons for this are:

The lack of adequate information being furnished by companies with regard to their lease commitments;

The lack of standardized procedures for evaluating the information that it available;

And, a certain amount of inertia on the part of the analysts

Another question that might be raised is what effect will a moderate amount of leasing have upon the credit standing of a company which otherwise has a relatively sound and conservative capitalization. I think that the answer is probably no effect whatever. In the first place, most companies have not been required to provide information concerning their lease commitments unless they are considered material, and the tests of materiality have exhibited a considerable amount of elasticity at times. But regardless of whether such commitments are reported or not, I think it is doubtful that they would have any material effect on an otherwise sound credit standing. After all, the various categories of credit rating are quite broad. It is not a matter of clearly defined ratios, where if you cross a certain dividing line you drop down a notch.

Does this mean that if lease financing is used in moderate amounts, it need not be considered a form of borrowing nor compared to the cost of debt? I don't subscribe to this. The fact that the amount is not material does not support such a conclusion. Neither would an equivalent amount of debt be a material factor, so that the question is still which alternative offers the greatest advantage.

After all, this question of whether lease financing can in fact make a greater amount of credit available is pretty much an academic one for a company whose total debt and lease obligations are within conservative limits. If there is any advantage it can only accrue to a company that has pushed the total amount of its borrowing above what would be regarded as a sound limit.

This brings up another point that I would like to comment on with regard to this so-called "balance sheet advantage." I think that it suggests a line of reasoning that goes something like this:

"The only significance of debt is the effect it has on the balance sheet appearance and on the opinions which analysts and lenders may have regarding the company.

Except for this, a company would be wise to raise all of its capital requirements through various forms of debt and thus obtain the maximum amount of leverage for its common stockholders.

The objective, then, should be to keep conventional borrowing within the limits of certain ratios which analysts like to see, and then circumvent those ratios through various means of off-the-balance sheet financing, such as leasing.

I question the soundness of this kind of reasoning. I think that there is more significance to debt than merely the outward appearance that it gives. If it has implications to financial analysts and lenders it has even more important implications to the owners of the business, the stockholders whom management represents. For this reason, I feel that a sound financial management will impose its own limitation on the amount of fixed obligations it is willing to incur, whether in the form of debt or leases, and whether they appear on the balance sheet or not.

**Other Intangible Advantages**

There are other more or less intangible factors which might, in the opinion of management, justify the use of lease financing. One is freedom from the restrictive covenants which are customarily imposed by debt agreements. These include limitations on the payment of dividends and the incurring of additional debt, and the required maintenance of a certain minimum amount of working capital. As yet, restrictions of this sort have not made their appearance to any extent in financial leases.

Or leasing might offer a convenient method of financing at the particular time. The amount of capital required may be considered too small to justify a term loan or debt issue, so that leasing might be resorted to in spite of a higher cost.

Along with these offsetting factors which might tip the scales in favor of leasing, I might mention two possible disadvantages.

One is the possibility that leasing can result in a loss of control over capital expenditures. Unless leasing is controlled at the operating level, the result may be that division managers will be able to obtain assets through leasing which they were denied appropriations for in the capital budget. Some companies have recognized this possible danger by instituting a separate leasing budget.

A corollary of this is that leasing may result in distortions in the evaluation of intercompany performance. To the extent that leased assets are used, the comparison of return on invested capital between divisions can be distorted. Some companies have overcome this by capitalizing lease rentals in measuring return on capital investment.

In conclusion, I think that the growing trend toward lease financing has important implications for at least three groups.

First, for the **public accounting profession.** I feel that there are serious deficiencies in the present accounting standards for the reporting of lease obligations. The accountants might well heed the words of an eminent accountant who wrote some 25 years ago: "The essential thing that is obtained when buildings and equipment are erected or otherwise acquired is not the physical plant but the services it is expected that such plant will render." The leasing companies have made liberal use of this type of reasoning in their sales literature. But, unfortunately, the accounting profession continues to account for fixed assets on the basis of legal form rather than economic substance.

Next, for the **financial analysts.** I think that the analysts may have either overstressed the importance of financial ratios or at least have created the impression that these ratios represent a final judgment rather than being merely analytical tools which are helpful in reaching a judgment. This, in turn, may have caused some companies

to adopt practices which have no economic justification.

And finally, some **corporate financial managers** might well reexamine their policies to determine whether they have made the most intelligent use of the various financing alternatives available to them.

*An address by Mr. Gant before the American Management Association's Conference on Leasing of Industrial Equipment and Facilities, New York City.

## Commodity Exch. Elects Officers

The election of J. Raymond Stuart as President of Commodity Exchange, Inc., New York, has been announced by the Board of Governors.

Mr. Stuart is a general partner of E. F. Hutton & Co. and has been a Governor of the Exchange since 1958. He becomes the 11th President of Commodity Exchange, Inc. since its founding in 1933.

Mr. Stuart succeeds Harold A. Rousselot, a General Partner of Francis I. du Pont & Co., who had served two consecutive one-year terms as Comex President. Mr. Rousselot was elected to the Board of Governors.

Newly elected Vice-Presidents of the Exchange are: William Reid, General Partner of Bache & Co., representing the Commission House Group; Walter S. Stern, President of H. Elkan & Co., Hide Group; Timothy F. Carberry, President, Metal Traders Inc., Metal Group; Matthew S. Fox, Vice-President, Balfour, Maclaine, Inc., Rubber Group; and John McN. Sullivan, Gerli International Corp., the Silk Group.

Joseph Fischer of Joseph Fisher & Co. was elected Treasurer.

In addition to Mr. Rousselot who will represent the Commission House Group, newly elected Governors are: Albert C. Purkiss, Executive Vice-President of Walston & Co., also representing the Commission House Group; Walter S. Stern, President, H. Elkan & Co., and Sidney Westheimer, Vice-President of Transamerican Hides, Inc., for the Hide Group; Simon D. Strauss, Vice-President of American Smelting & Refining Company, and Jean Vuillequez, Vice-President of American Metal Climax Co., for the Metal Group; Robert A. Badenhop, President of Robert A. Badenhop Corp., and Matthew S. Fox, Vice-President of Balfour, Maclaine Inc., for the Rubber Group; and Kuo C. Li, Chairman of the Board of the Wah Chang Corp., for the Non-Union Trade Group.

Commodity Exchange, Inc. serves as the market place for futures trading in copper, lead, zinc, rubber and hides.

## Chicago Analysts to Hear

CHICAGO, Ill.—William B. Graham, President of Baxter Laboratories, Inc., will be guest speaker at the luncheon meeting of the Investment Analysts Society of Chicago to be held Jan. 28 at the Midland Hotel.

## J. C. Hoit Opens

(Special to THE FINANCIAL CHRONICLE)

MT. VERNON, Ill.—John Carroll Hoit is engaging in a securities business from offices at 1100 Main Street.

## Form Hanover Associates

Hanover Associates, Inc. is engaging in a securities business from offices at 59 East 54th Street, New York City.

## Stanley Heller, Partner

On Jan. 14 Norman V. Lind, Jr., will acquire a membership in the New York Stock Exchange, and will become a partner in the Exchange member firm of Stanley Heller & Co., 30 Pine Street.

# The Role of the Lender In Equipment Leasing

*Continued from page 13*

ated an interest in, and respect for, good lease and security documents. Without them the best credit analysis may be of little value.

### Balance Sheet Is Not Enough

In Donald R. Gant's recent article in the *Harvard Business Review*, the advisability of capitalizing the lease was discussed. I don't intend to go into that subject in detail here, but the discussion that developed from Mr. Gant's article is an indication that the balance sheet is not all that is needed to properly appraise a credit: neither is the accompanying operating statement. I was brought up in banking by a man who continually cautioned us against becoming *preoccupied* with the balance sheet. His counsel has served me well, and I continue to pass this advice along to others. My first interest is the soundness and trend of the industry from which the payments must come. If the industry is attractive the next consideration is the position of the lessee in that industry. These are basic credit steps and are fundamental in leasing. If the credit fails on either of these tests there is no reason to look at the balance sheet or operating figures. On the other hand, if it is a young company with good management the balance sheet may look "thin" but the strength in the management and its place in the industry may make it a good credit. By this I am saying strength within the company or lack thereof, will be very important in determining the possible interest in making a loan on the lease. It must also be remembered that lending institutions are made up of people—so practices and preferences, and emphasis vary accordingly. It is only natural that most lending institutions have preferences in the loans they make because of experience and background.

A lender's approach to credit analysis is affected by the type of property to be leased. Leasing has been a common practice in the field of real estate for many years and most people have had some experience in this type of leasing. My assumption, however, is that the greatest interest is in the newer forms of leasing so I will not dwell on the real estate lease. Lending on marine vessels will be passed over also—not because it isn't important but because it is a specialized type of lease and is of interest to a relatively small group.

### Active Areas of Leasing

Although practically anything can be a leasable property I believe the following groups cover the greatest activity at the present time:

Plant equipment, including machine tools and store fixtures.

Small portable business machines, such as typewriters and calculators.

Material handling equipment such as lift trucks.

Vending machines, ice cream cabinets, etc.

Containers, such as gas bottles, beer barrels and including pallets.

Passenger cars, short and long terms, with and without maintenance.

Trucks and trailers, short and long term, with and without maintenanee.

Railroad rolling stock or course has been leased for many years. In fact there is probably more railroad equipment leased than owned. It is interesting that this railroads got started with this practice at a time when they could not get needed equipment any other way. There are two forms of lease for railroad rolling stock although both are trusteed and are known as equipment trust financing. One lease form is called the New York Plan and the other, a conditional sales agreement, is known as the Philadelphia Plan. Railroad equipment trust financing has some unique features. For instance, the ability of the railroads to take depreciation and acquire the property at the time the final lease obligation is paid. There is also a special provision in the Bankruptcy Act that gives the trustee absolute control of the title in the event of bankruptcy. The air transport industry now has similar consideration in the Bankruptcy Act. A word of caution — these provisions apply to the transportation industry only. A plane or railcar leased to a corporation does not have these privileges.

### The Lessee Himself

In *our* lease financing we are particularly interested in the lessee, not only in his ability to pay but also as a potential customer, but some lenders do not look at the lessee as a prospect. Because banks must keep their deposits in line with loans, balances must be kept on deposit to compensate for the loan. These run from 10% to 30% and probably average 20% currently. Since few professional leasing companies have enough capital to carry adequate balances, he frequently places the lease with the lessee's bank, where there is money already on deposit. Although some of the older leasing companies are developing a bigger cash position, their growth is at too fast a pace for them to be in a position to supply all of the funds for compensating balances. To be less dependent on the lessee's bank account, lessors borrow funds from non-bank sources and deposit this to create a bank account for the required compensating balances. We discouraged this practice. Manufacturers and vendors frequently have their own leasing setups and of course their position is quite different from the professional lessor, as cash is probably adequate to support a reasonable leasing activity in addition to the company's normal borrowing. The net worth and general substance can also be sufficient to minimize the lender's reliance on the lessee as the only source of money for the loan retirement. This does not mean that the lender prefers that leasing be done by the manufacturer or vendor. In our opinion only mature, well staffed companies should undertake their own leasing. Except for companies with such well staffed management, full attention to the basic functions of the business will be more profitable than the small change picked up from running a *leasing* subsidiary. Leasing should not be undertaken on a casual basis.

So far, I have described the general conditions that a lender looks for. If these conditions are attractive, he has probably learned enough to indicate the type of credit that is involved and the trend that further investigation should take. As lenders we first interest ourselves in the essential nature of the property to be leased. With the exception of very large well heeled firms that may need airplanes in their business for executive transportation, we require the equipment to be an earning asset. That is—something that is definitely needed in order to carry on business in an efficient manner. Salesmen's autos and company trucks qualify as being necessary, as do items of office equipment.

We have financed leases for vending machines, ice cream cabinets, fixtures for supermarkets as well as elements of their installation, office furnishings including office furniture and the business machines. Financing a lease covering such things as the wiring for the installation of frozen food cabinets in grocery chains is not a common practice with us. However, when we have done it we have been well satisfied that the credit of the lessee was beyond doubt, the mortgage or lease on the building made provision for such installations so that they would not be claimed as part of the building. The same applies to office drapes and furnishings. Small items such as wastebaskets are not readily identifiable and we believe should not be capitalized. There is a fundamental involved here also. We believe that the company shoud not *need* to lease such equipment. They should have capital for such minor items. If they insist on including this equipment we are inclined to turn down the whole deal. We think it is an indication of weakness either in finance, or in the head.

### Cash Flow in the Credit Investigation

The depth to which a credit investigation should be carried is also affected by the size of the lease rental obligation in relation to the lessee's overall picture. If the company is substantial and the lease rental would not be in doubt in the event of a downturn in business, little detailed credit analysis is required. On the other hand, if the lease involves a substantial amount of money, the lender is interested in getting complete financial information including a forecast of the effect of the acquisition. At this point we determine as best we can the full extent of the lessee's obligations including leases. As far as I know we have not gone into a complete recasting of the balance sheet to capitalize the lease, although we make other checks that serve our purposes well. Personally, I follow cash flow and place much importance on it. Like anything to do with mathematics or statistics, care must be taken to look at the principal elements that make up the figures. In particular, is the depreciation proper when obsolescence, taxes, and such are taken into consideration? The schedule of lease rental payments must at least equal the schedule for the debt service.

Earlier in the discussion I indicated that thoughtful lenders will consider what will happen to the credit if there is a contraction in volume, as well as what can be planned on in the event losses carry the company into receivership or bankruptcy. Not all of this can be determined from balance sheets and accompanying profit and loss statements. In strong companies there can be satisfaction that things will not go completely to pot, and in others it may be necessary for the lender to go much deeper. It is not common for lessors to submit a great deal of financial data beyond the balance sheet and P & L but on leases involving substantial amounts we are particularly anxious to meet the lessee and develop more credit background information. In such meetings we are able to hear management discuss their plans and the action they visualize if things do not go as well as planned. There is also the opportunity to determine the thoroughness of the program and financial planning. From this we will know what analytical material is available and the possibilities that could affect their ability to make the lease payments. This amounts to determining where the breakeven volume is, and what can be done to further reduce costs in a pinch. Lease agreements may be drafted to include such restrictive covenants as may be required.

In transportation credits we look at the operating ratio and what will happen under various conditions. At our bank we have developed statistical yardsticks and ratios in industries where we feel the need. We watch the ratio of cash flow to debt retirement and lease obligations. This is done on a historical as well as current basis. When this and other pertinent figures and ratios are laid out in tabular form and compared with the industry average and the known better companies in the industry, the character of the company and the risk become quite evident. These analytical procedures are not common to all lenders. It does permit us to feel confident after we have made a loan and permits us to make loans where otherwise we would have to turn our customers down. I might add that these are credit techniques that are used on our other credits, not just leases—so this is **not unique** to financing leases. Some may ask why we go to such lengths. The procedure is not complicated and after it has been done once, additional loans are easy to measure. It follows that imaginative financing as practiced by the lessor and lessee requires credit analysis and lending to be imaginative too.

I hope that my views on the balance sheet and P & L does not leave anyone with the conclusion that we ignore them. Nothing could be further from fact. In the initial stages of the talks we spend enough time on this type of data to determine what type of critter we have to deal with. We then proceed with the evaluation as I have described it. When we come back to the balance sheet and the P & L we pay particular attention to the trend over a period of years and compare growth, profit and overall progress to the industry.

### In Conclusion

Lenders will be interested in the type of equipment to be leased and its usefulness to the lessee.

Although the credit of the lessor is of interest, the lessee will be of most importance to the lender. A ready market for the collateral is of importance to all lenders. Lessors should be sure their assumptions on depreciation and taxes are sound. The leased asset should be vitally needed in the lessee's operations and the earnings it creates should affect overall cash flow to assure coverage of all debt and lease servicing obligations by a considerable margin. To assume a good credit—good papers should be drawn. The lease should be carefully analyzed to make sure it is a true lease. Lease payments should cover the debt servicing schedule.

*An address by Mr. Brown before the American Management Association's Conference on Leasing of Industrial Equipment and Facilities, New York City.

## Mann & Gould Add

(Special to THE FINANCIAL CHRONICLE)

SALEM, Mass.—Roy M. Norwood has been added to the staff of Mann & Gould, 70 Washington Street, members of the Boston Stock Exchange.

## Form Regency Planning

BETHPAGE, N. Y.—Regency Estate Planning Co., Inc. is engaging in a securities business from offices at 352 Broadway. Frank A. Spina is a principal.

## Loewi Adds Three

(Special to THE FINANCIAL CHRONICLE)

MILWAUKEE, Wis.—John J. Altenburg, Alvin L. Falk and George C. Poggel, Jr. have become associated with Loewi & Co. Incorporated, 225 East Mason Street, members of the New York and Midwest Stock Exchanges.

# Variable Annuities—Retrospect and Prospect

*Continued from page 17*

to purchase a fixed-dollar annuity, there has been almost no shifting back and forth. There is no evidence of attempts by staff members to "guess the market"—they accept CREF and TIAA as long-range, conservative, well-planned retirement income programs, not speculative investment schemes.

In our annual reports and our various writings on CREF, we emphasize again and again that common stock performance and the performance of the American economy at any one time can vary quite widely both up and down. We continually point out that while the experience of CREF has been exceedingly favorable so far, it can go the other way. We also emphasize that it is the long-range experience which is important. CREF has been scrutinized in minute detail by many organizations studying whether to set up their own variable annuity plans.

Yes, if we had it to do over again, we would set up CREF, and we would use practically the same structure for it. In our experience with it, only minor technical changes have seemed necessary or desirable. Few revolutionary developments in the insurance world have ever been looked at quite so hard and carefully, not only by those who developed it originally, but by people in the insurance world and those outside. Thus as a conclusion to the retrospective view I would like to mention the truly brilliant technical work in setting up CREF accomplished by Robert M. Duncan and Wilmer A. Jenkins, Fellows of the Society of Actuaries, as to all of the actuarial aspects; George E. Johnson and John Paul Good on all phases of the legal structure, Thomas C. Edwards, Richard F. F. Nichols, Walter Mahlstedt, Ida Cepicka, and several others. R. McAllister Lloyd, Chairman of TIAA, led and coordinated the whole effort, and in addition established the structural organization including the Board of Trustees.

### The Prospective View

I recently heard at a meeting where nuclear and bacteriological warfare, the population explosion, the growing threat of communism's spread, and such things were being discussed, a definition of an optimist: "An optimist is a person who thinks the future is **uncertain.**"

I am a totally unreconstructed optimist; I must be, I am in the annuity business. It is a wonderful thing, with ICBM's aimed from 5,000 miles away at our homes and offices, how we maintain our faith in the future to the extent of devoting our lives to making people more secure in their old age, and that well into the 21st century.

Many are aware of the fuss and furor during the most recent half dozen years over whether variable annuities should be offered to the general public, and if so, by whom and how. We have kept on the sidelines at TIAA minding our own shop, trying to run an effective operation for a wonderfully worthwhile profession. This did not mean that we had no interest in what was going on. But it did and does mean that we have no desire to suggest to other people that they should do the same as we did, or that they should set up a different system, or that they should try it at all. But now it is clear that variable annuities will be written on a substantially greater scale during the 1960s, and they probably will be written both by small specialty companies like PALIC, VALIC, and EALIC; by the Prudential Life Insurance Company and others following its pattern, by State Retirement Systems such as in Wisconsin, by many trusteed and other large plans, by semi-governmental units like the Tennessee Valley Authority, and perhaps by mutual funds.

Many thoughtful people have taken strong positions on both sides of a number of questions related to variable annuities:

"Variable annuities are no good."

"Variable annuities are the answer to every problem of retirement income."

"We have now licked inflation."

"We will have chronic inflation, and a little inflation is good for the economy."

"We will never have another depression like 1929."

"Another depression is just around the corner."

"Common stock prices are too high."

"Common stock prices are really quite low considering their current values."

"In fixed-dollar annuities the insurance company takes all the risk."

"Inflation destroys all the value of a fixed-dollar annuity."

"Variable annuities are securities."

"Variable annuities are life insurance."

"Variable annuities are not 'annuities.'"

"Variable annuities are the only annuities worthy of the name."

Most of these statements are extreme on each side. I doubt if any of us can foresee the future well enough to take such strong positions. I believe that a number of the extreme views and much of the misunderstanding with respect to variable annuities arises primarily from the failure to keep in mind the very long-time intervals involved in annuities and the facts with respect to inflation and deflation over such periods. We simply are not discussing term insurance, family income insurance, most of ordinary life, or major medical, group life insurance or many of the other services provided by life insurance companies which are so essential and which are affected not at all or only unimportantly by inflation.

The problem of providing financial security for retired people is one that stretches over a number of decades, the normal 35 to 45 working years of a man's lifetime, plus the average retired lifetime after age 65 of some 15 years for a man and about 20 to 22 years for his wife, assuming she is a couple of years younger than he. In trying to solve the problem of saving for old age income, it is not enough merely to predict whether we are going to have inflation in the next six months or six years. Let's put this thought in startling prospective; people now retiring started their working lifetime 2½ inflations and one disastrous depression ago, the inflations during and after each World War and the half inflation of the Korean War, plus the Great Depression. There has been no time in American economic history where there has not been at least one substantial inflation during a period encompassing the normal working and retired lifetime of an individual. And for the other side of the coin, there has been no time in American economic history in which there has not been at least one substantial recession or depression during the working and retired lifetime of an individual.

I would like also to sound a warning against the use of trend-line analysis in connection with retirement planning. We often hear statements such as, "We have suffered inflation at the rate of 3% a year ever since the Civil War, or the opening of the Century, or whatever." We also frequently hear statements such as, "Common stocks have yielded 4.9% and have had capital gains of 2.3% per annum during the first half of the 20th Century." Statistically such statements may be reasonably accurate, if allowances are made for imperfections in cost of living indexes, common stock indexes and the like. However, the year by year and decade by decade fluctuations both up and down in both of these indexes places them well away from their own long-term trend lines most of the time. A retired individual simply does not live on a trend line; he lives day by day, week by week, and month by month, according to the then existing price level and purchasing power of his retirement income.

If this reasoning is valid, certain conclusions flow from it. If we are to work effectively to provide retirement security for Americans, we must make every effort to supply adequate purchasing power during each year of an individual's retirement regardless of which way the American economy is moving at that time. It is probably a good idea to mention once again the three basic conclusions reached during the course of the economic studies in 1950 and 1951 underlying the establishment of CREF.[1] These studies covered a 70-year period of turbulent economic history, 1880 to 1950. The three basic conclusions were:

(1) "It is unwise to commit **all** of one's retirement savings to dollar obligations, since decreases in the purchasing power of the dollar can seriously reduce the value of a fixed income annuity. Increases in the purchasing power of the dollar, on the other hand, improve the status of the owner of a fixed income annuity.

(2) "It is equally unwise to commit **all** of one's retirement savings to equity investments, since variations in prices of common stocks are much too pronounced to permit full reliance on them for the stable income needed during retirement. Changes in the value of common stocks and other equities are by no means perfectly correlated with cost of living changes, but they have provided a considerably better protection against inflation than have debt obligations.

(3) "Contributions to a retirement plan that are invested partly in debt obligations and partly in common stocks through an Equities Fund providing lifetime unit annuities offer promise of supplying retirement income that is at once reasonably free from violent fluctuations in amount and from serious depreciation through price level changes."

The experience of the CREF investment portfolio and of common stocks in general has been exceptionally good since the start of CREF in 1952. It might be claimed that this strengthens the case of those who think that 100% of an individual's retirement savings should go into variable annuities. I believe that it strongly supports the case of those who believe in balancing retirement income between fixed and variable contracts.

Let us look at a few common stock price index figures and price-earnings ratios:

| Date Dec. 31, | Dow-Jones Industrials Price Index | Price-Earn. Ratio |
|---|---|---|
| 1948 | 177 | 7.7 |
| 1952 | 292 | 11.8 |
| 1958 | 584 | 20.9 |
| 1959 (9-30) | 631 | 17.8 |

While this by no means suggests we should take fright (or flight) because of current levels of common stock prices, it also does not suggest we should give up our adherence to balance and put all our savings into common stocks.

Historically common stocks have yielded from about three-quarters to 1½% more than bonds. Currently bond yields are about one to 2% higher than yields on stocks. It has been said, historically, that the differential yield in favor of common stocks was a payment for additional risk taken by the individual. Are we now to use part of this traditional analysis of differential yields to say that investors are demanding a differential in favor of bonds because of the risks they take when they invest in bonds—the speculative danger that the purchasing power of their bonds, not the amount of dollars, may deteriorate? I suspect this is a part, although not large, of the reason for the current differential yield in favor of bonds. The public generally overcompensates at any one time. If this is true, we may find a curious anomaly. At the present time the purchaser of common stocks must expect those stocks on the average to have a combined capital gain and additional yield rate of one or 2% or perhaps more in their favor in order just to equal the record of currently purchased bonds. It is by no means impossible that the historical relationship could be reversed for a long period of time. If so, the effective hedge against increasing living costs—inflation—might be obtained from the total investment performance of bonds instead of from the total performance of common stocks. But let us balance that thought too—some people expect the Dow Jones Industrial Index to break 1,000 during the 1960s. Since our ultimate objective in developing the combined system of TIAA fixed-dollar and CREF common stock annuities is to provide long-term economic security during retirement, these various facts emphasize the fact that all we can be certain of for the future is change. This suggests a continuation of the conservative middle ground of investment whereby the individual is given a reasonable chance of security regardless of the direction in which the American economy moves during his retirement.

### Full Participation Variable Annuities

An interesting conceptual matter arises in connection with the word "guarantees." The use of "guarantees" has been changing in the insurance world to take account of changing conditions. Especially in the various group lines the factors going to make up premium rates at any one time are frequently not guaranteed or if so, not for very long into the future. Specifically in the field of annuities, the deposit administration funds and then the "immediate participation guarantee" arrangements shift from the former concepts of long-term guarantees to a system providing full reflection of current performance.

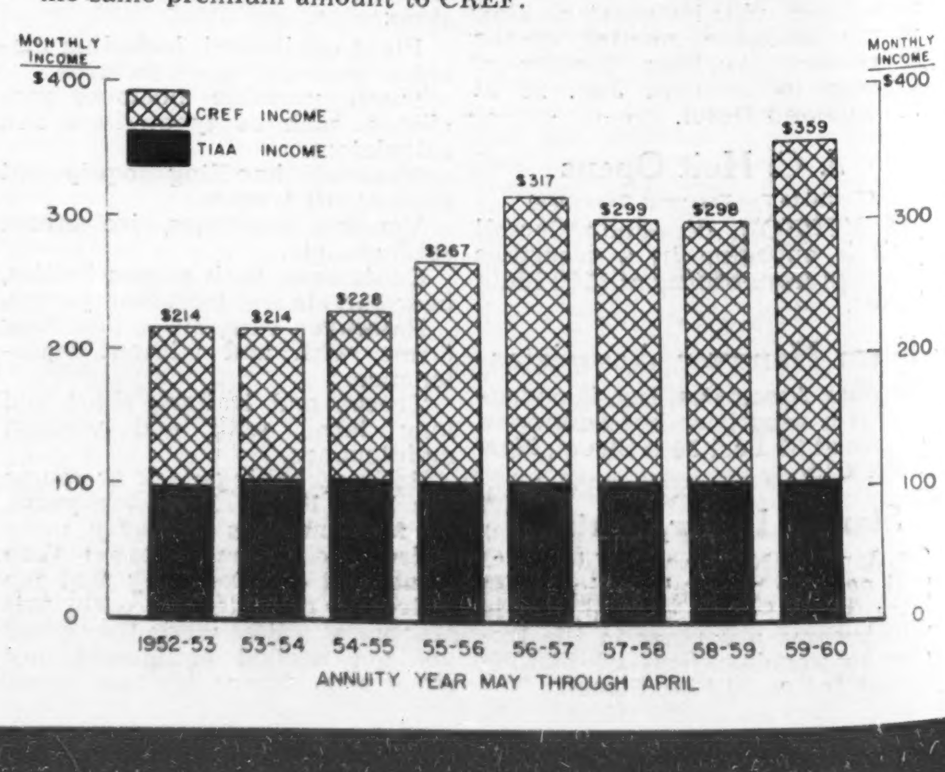
In variable annuities two methods are in use and proposed, neither of which change in any way the essential aspects of the variable annuity. In two of the small specialized companies issuing variable annuities, VALIC and EALIC, mortality and expense factors are guaranteed, and this is appropriate since these are both stock, profit-making ventures; in the other, PALIC, none of the factors are guaranteed. In the proposed Prudential plan, guarantees of mortality and expense factors are incorporated, and in fact the New Jersey law specifies that the only kind of variable annuities that can be written under it must contain guarantees. The Wisconsin state plan and the Tennessee Valley Authority plan contain no guaranteed factors. Some of the trusteed plans guarantee the expense and mortality factors; others don't.

It has been said that with guaranteed fixed-dollar annuities the insurance company takes all the risks; with variable annuities the individual takes all the risks. Actually, with a fixed-dollar annuity the individual takes all of the risk of inflation, and with a variable annuity the individual receives the full advantage of good performance of equity investments by accepting also the risks of poor performance. Likewise, of course, the **essential** element of life annuities is the shifting of the mortality risk from the individual to the group, which is accomplished in both the fixed-dollar and the variable annuity, whether with "guarantees" or not.

Depending on the circumstances, guarantees of mortality and expense items in the variable annuity portion may or may not be desirable. If guarantees are used, something must support the guarantees. This support is generally obtained by siphoning off some of the earnings to reserve funds and surplus instead of paying them out to participants in current retirement income. This may be appropriate in group annuities covering heterogeneous groups, or in situations where there otherwise would be no adequate control over expenses. If reasonable mortality assumptions are made, and if the group to be covered is very

### TIAA-CREF INCOME ILLUSTRATION

As an example of a span of seven and a half years of combined TIAA-CREF annuity benefit payments, the graph below shows the monthly annuity income that would have resulted from a single premium paid for TIAA-CREF Immediate Annuities on July 1, 1952 by a man aged 65. The premium paid to TIAA was assumed to be large enough to purchase an annuity of $100 a month, with the same premium amount to CREF.




[1] A New Approach to Retirement Income, by William C. Greenough, TIAA-CREF, 730 Third Avenue, New York 17, New York.

large . . ., the variations in mortality experience among the group of annuitants will only be an insignificant fraction of the variations resulting from changes in the performance of the common stock portfolio. A traditional fixed-dollar annuity guarantees the mortality, interest and expense factors but leaves out the important item of purchasing power. In the variable annuity the important factor for the individual is his opportunity to participate fully in the growth and development of the American economy as reflected in his annuity payments. In whatever may ultimately be done as to variable annuities, there certainly should be provision to issue them on a fully participating basis, as well as, if desired, on a basis guaranteeing mortality and expense rates.

The CREF annuities are fully participating. Here a large group of annuitants was assured so that mortality fluctuations, as expected, have been insignificant. There are currently 57,000 CREF participants in the premium paying stage and 650 persons already retired. As to expense rates, low expenses in the TIAA-CREF situation are practically assured, and the current total expense charges during the premium paying stage of 2.1% of the premium for operating expenses plus 1/60th of 1% of the fund per month for investment expenses are obviously exceedingly modest. A 1% charge takes care of all operating expenses during the period of benefit payments. I might point out that while TIAA has no reason or desire to charge participants more or less than its costs to run CREF, the New York State Department of Insurance under which both CREF and TIAA operate, will not let TIAA overcharge or undercharge the CREF participants.

**Predictions of Growth**

A favorite game of economists has come to be that of predicting whether it will be in the year 1978 or 1984 when the United States crosses the $1,000,000,000,000 mark in Gross National Product. Electronic data processing, automation and other such advances in handling clerical and industrial work will be among the factors almost assuring substantially rising per capita standards of living. Population predictions show a continually expanding market, especially in the younger age groups and in the number of persons over age 65. A great challenge lies ahead for all types of retirement savings, of which variable annuities are only one. In combination with fixed-dollar annuities based on an investment portfolio largely of fixed-dollar assets such as bonds and mortgages and providing good protection during deflation and normal times, the variable annuity based on equity investments broadens the diversification of investments for support of old age security, during normal times, and also brings in a balancing factor of protection against inflation.

The decade of the 1960s will show whether this new development, the variable annuity, will be used well and intelligently to enhance the retirement well-being of many Americans. There is a hazard that it might become an "over industry" — overregulated, oversold, overprotected, overextended. It may be regulated both at the national and at the state level, and as both retirement annuities and securities. It may be sold, and the funds may be invested, by all sorts of people with all sorts of training. It may be forced into specific patterns by law that are inappropriate for it. Or its promise may be enhanced by intelligent legislation, supervision, management, marketing and operation. This is going to call for real leadership on the part of public officials and private enterprise toward the end that variable annuities can best serve the retirement security of the segments of the American public that wish to make use of them.

**And Back to CREF**

Coming back to the College Retirement Equities Fund, its continued development would seem to be assured. It is embraced by the colleges, universities, foundations, scientific and research organizations, and educational associations as a significant aid in attracting and retaining capable academic talent. During the coming years of enormously expanding college enrollments and a great talent search for teachers this function of CREF may become more and more important. And as an ultimate objective we see good prospect that the combination of a strong fixed-dollar annuity provided by TIAA and a variable annuity provided by CREF will give each college professor as he retires the reasonable security he should be able to look forward to after a lifetime of service to higher education.

*An address by Mr. Greenough before the American Association of University Teachers of Insurance, Washington, D. C.

# Prospectors & Developers to Convene in March

TORONTO, Canada—The Twenty-Eighth Annual Meeting and Convention of the Prospectors and Developers Association will be held in the Royal York Hotel, Toronto, March 6 to 9, inclusive. Delegates, in record numbers, are expected from all parts of Canada and the United States with a few visitors from overseas. Under the direction of perennial President, Viola R. MacMillan, this year's convention will commence with a reception at 25 Adelaide St. West, followed by a Buffet Dinner at the Royal York Hotel and a welcoming address by Hon. Paul Comtois, Minister of Mines and Technical Surveys, Ottawa.

Viola MacMillan

Business sessions, containing a wealth of technical and practical detail for Canada's prospectors, will get underway mid-Monday morning and will continue throughout the next two days, leading to the Annual Mining Day Banquet on Wednesday evening.

Stewart A. Ferguson, geologist with the Ontario Department of Mines, will describe prospecting activities in Bateman township, Red Lake area, where interest has revived materially on the district's gold potential. David A. Keys, scientific adviser to the president, Atomic Energy of Canada, will outline the latest progress in his field.

Luncheon speaker will be the Hon. J. H. Brockelbank, Saskatchewan Minister of Mineral Resources, who will detail the accomplishments of the province during the past year. Other speakers will include the Minister of Mines for Ontario and E. R. E. Carter, Managing Director, Patino of Canada. The afternoon will be devoted to a symposium on prospecting. A number of prominent individuals in exploration will be inivited to analyze the reasons behind the current slowdown in mineral search in Canada, to examine the problems and discuss remedial action.

Tuesday's session will cover a wide range of subjects pertinent to prospectors and developers, ranging from Seismic surveys in Southwestern Ontario, to descriptive talks on Nova Scotia, Newfoundland, the Yukon, New Brunswick, the Thompson-Moak Lake area of Manitoba, the Val d'Or-Mattagami area of Quebec and mineral possibilities in British Columbia.

Simon D. Strauss, Vice-President, American Smelting and Refining Co., New York City will be luncheon speaker.

Wednesday's program will include papers on the iron deposits of Quebec, the geology of the Arctic Islands, an opinion on the future demand for minerals, amongst other subjects. Honorable R. Winters, head of Rio Tinto in Canada, will be luncheon speaker.

The afternoon's session will be conducted in the form of a financial symposium at which time problems confronting the financing of mines — regulations concerning financing both with the unlisted trading of securities and listed trading of securities—syndicates and prospectuses will be discussed. It is planned that a speaker representing the Toronto Stock Exchange, Broker-Dealers' Association, general public, banks and mining company operators will participate in this forum.

# Blyth Heads Large So. California Bond Group

Blyth & Co., Inc. and associates offered publicly on Jan. 27 an issue of $30,000,000 Southern California Edison Company 5% first and refunding mortgage bonds, series L, due 1985, at 101.143% to yield 4.92%. The group was awarded the issue at competitive sale on a bid of 100.46% for the 5% coupon.

The new bonds are not redeemable for refunding at a lower interest cost to the company prior to Feb. 1, 1965. Otherwise, they are redeemable at the option of the company at regular redemption prices ranging from 106.14% to 100% for those redeemed on or after Feb. 1, 1984.

Net proceeds from the sale of the new bonds will be used by the company in part to retire all short-term bank loans incurred for construction, which are not expected to exceed $25,000,000, and the balance will become treasury funds. It is presently expected that gross plant additions for the years 1959-60 will total about $248,127,000.

## H. L. Smith Branch

AUSTIN, Texas—H. L. Smith Co. has opened a branch office at 2501 Exposition Boulevard under the management of Clyde W. Smith.

## Now Daniel Winter Co.

ST. PETERSBURG, Fla.—Daniel T. Winter & Co., Florida Theatre Building, has been formed to continue the investment business of Daniel T. Winter.

## Two With Columbine

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—Donald P. Dunklee and Don I. Mahler have joined the staff of Columbine Securities Corp., Denver U. S. National Center.

## Forms Equitable Inv.

JAMAICA, N. Y. — Louis P. Brown is engaging in a securities business from offices at 86-75 Midland Parkway under the firm name of Equitable Investors Co.

## Now Proprietor

ST. LOUIS, Mo.—Leonard Vogel is now sole proprietor of Glaser, Vogel & Co., Boatmen's Bank Building.

## A. C. Allyn Branch

PALM BEACH, Fla.—A. C. Allyn and Company, Incorporated has opened a branch office at 235 South County Road under the management of Cyrus W. Merrell.

# SECURITY SALESMAN'S CORNER

BY JOHN DUTTON

## Be Your Own SEC

The other evening I watched a television program which portrayed how boiler shop operators separate the unitiated, the greedy, and those with an urge to get rich quick without working, from their hard earned savings. The story was well told. Despite the lure of easy money and the siren call of the stealthy stock telephone salesman the honest broker steps in, a potential sucker gets religion, the SEC enjoins, and the act is over.

I suppose it is worthwhile to put this type of show on TV. It is a public service to inform people about boiler shops, fake stock deals and their promoters, the unregistered securities that are offered for sale, and the "pitch men" who sell them. Every year, particularly when the public appetite for stocks is in high gear, there is a certain amount of loose change that is mulcted from the gullible people who buy this fast talk about easy money and quick wealth that can be had for a few hundred, or a few thousand dollars that is invested in some stock about which they never heard before they received a telephone call from some fast talking stranger.

Although I have never seen the figures (or an estimate) I doubt if all the losses that are established by the luckless ones who have been taken by a bucket shop operator, are a drop in the bucket compared to the wreckage that is left behind after several years of a fast moving stock market boom, such as we have been having for the past several years.

**Competition for New Issues Of Dubious Worth**

I refer particularly to the phobia that grips people when they become emotional and allow their imagination to take control of their better sense. I have watched the bull market of 1927-1929, the market between 1935 and 1937, the market that ended in 1946 after a period of highly aggravated offerings of "new issues" of very sleazy character. Every one of these periods, including the one which started around the beginning of 1959 and is now reaching its peak of intensity, were marked by an outpouring of overpriced, marginal stock issues, that were ground out at a rate that should leave no doubt in anyone's mind that these stocks were created for several reasons; and none of these reasons have to do with the welfare of the people who buy them.

Recently I was informed of an issue that was offered to a certain underwriter by a small company in an unimpressive line of business with a record that was nothing to make it outstanding in any way. The company had only been in business a few years and profits were around 100,000 after taxes. The owners of the business (as is often the case) had taken out profits and expensed almost everything possible that the tax man would allow (or had not discovered) such as family on the payroll, etc., etc. Now they wanted to go public. They valued this business at $2,200,000. They desired a chunk of cash for themselves that was much more than they could have sold the business on any normal market, and they still desired to keep control. They found an underwriter. This underwriter offered to do the deal for 15%, plus 10,000 shares of stock at 10 cents a share (that they would put on the market for $5.00) and everything was all set to go.

Meanwhile, another underwriter stepped into the picture. This was a large firm with a national reputation. They sent the owners of this business to a small investment firm who offered to do the underwriting for 13%, and 10,000 shares on warrants at the issue price. The underwriting is now hanging fire but it looks like house number two (through its backdoor, unofficial affiliate) will get this deal. As to who will sell it, with its nationwide string of offices, that's perfectly obvious.

**Full Disclosure**

There is nothing illegal in all this. A good lawyer will write the prospectus, there will be a full registration, the facts will all be told in the prospectus. Small business needs capital. There is risk in this type of speculation. No one is going to be misled. Everyone who buys will eventually be supplied with a prospectus AFTER THEY HAVE GIVEN AN INDICATION (which for all practical purposes is the same as an order) and have received their confirmation. As far as I can see, those people who rush in to buy this sort of speculative, new issue, will have only themselves to blame if several years from now they wind up with a stock that shows them a substantial loss. Maybe this one will work out O.K. Some of these long shots do come through. Many of the people who buy such securities are anxiously waiting for someone to offer them a "hot new issue." If they get their fingers burned they should know they are playing with fire and they deserve it.

The only time overpriced, highly speculative stocks can be sold to the public is when they eagerly think they can get something for nothing. That's when underwriters of this type of security, deal men, attorneys, accountants, and high pressure stock salesmen have a field-day. The harvest is not yet over.

For my money, I am going to be my own SEC. I want investors for customers. Maybe I'll make a little less in commissions but I've been in this business long enough to know when the pot is boiling and what is in the stew.

# Phila. Secs. Assn. Elects Officers

PHILADELPHIA, Pa.—Albert A. R. Wenzel, Manager of the Philadelphia office of the investment banking firm of Francis I. du Pont & Co., was elected President of the Philadelphia Securities Association at the annual election and dinner of the Association. Mr. Wenzel succeeds Spencer D. Wright, III, of Wright, Wood & Co. whose term expired.

Other officers elected to serve for one year are: Gordon L. Keen, of R. W. Pressprich & Co., Vice-President; John P. McCoy of Thayer, Baker & Co., Treasurer and Phillips B. Street of The First Boston Corporation, Secretary.

The following were elected to the Board of Governors to serve for two years: Gordon L. Keen; William A. Lacock of E. W. Clark & Co.; John P. McCoy and Phillips B. Street. Henry McK. Ingersoll of Smith, Barney & Co. was elected to the Board for a one year term to fill a vacancy.

# News About Banks-Bankers

*Continued from page 18*

**Detroit, Michigan,** with common stock of $12,528,500. Under the charter and title of Manufacturers National Bank of Detroit. (Number of shares outstanding 1,272,850, par value $10 each.)

* * *

By a stock dividend, the **First National Bank of Kenosha, Wisconsin,** increased its common capital stock from $1,200,000 to $1,500,000. Effective Jan. 14. (Number of shares outstanding 75,000, par value $20.)

* * *

**The Fourth Northwestern National Bank of Minneapolis, Minnesota,** increased its common capital stock by a stock dividend, from $250,000 to $350,000. Effective Jan. 15. (Number of shares outstanding 3,500, par value $100.)

* * *

The conversion of the **First National Bank in Armour, South Dakota,** into a state bank under the title **First State Bank, Armour, South Dakota,** effective as of the close of business Dec. 31.

* * *

By a stock dividend, the **Boatmen's National Bank of Saint Louis, Missouri,** increased its common capital stock from $6,000,000 to $6,750,000. Effective Jan. 15. (Number of shares outstanding 337,500, par value $20.)

* * *

W. Boardman Jones, Jr., Vice-President of **Mercantile Trust Co., Saint Louis, Missouri,** was elected Chief Executive Officer of the trust department succeeding Joseph W. White, who is retiring.

* * *

The conversion of **The Farmers National Bank of Owenton, Kentucky,** with capital stock of $60,000 into a state bank under the title **Farmers Bank, Owenton, Kentucky,** Inc., was effective as of the close of business Dec. 31, 1959.

* * *

**The National City Bank of Rome, Georgia,** by a stock dividend, increased its common capital stock from $200,000 to $300,000, and by the sale of new stock from $300,000 to $375,000. Effective Jan. 6. (Number of shares outstanding 37,500, par value $10.)

* * *

A charter was issued on Jan. 18, to **South Orlando National Bank, Orlando, Florida.** The President is W. J. Capehart and the Cashier, George E. Sullins. The bank has a capital of $300,000 and a surplus of $300,000.

* * *

The Office of the Comptroller of the Currency announced on Jan. 18, that a charter had been issued to **First National Bank of Wauchula, Fla.** President is Steuart P. Hicks and the Cashier Clyde C. Wheeler. The bank has a capital of $250,000 and a surplus of $200,000.

* * *

**The First National Bank of Kissimmee, Florida,** by a stock dividend, increased its common capital stock from $200,000 to $2,300,000. Effective Jan. 6. (Number of shares outstanding 92,000, par value $25.)

* * *

Promotions of members of the official staff of the **Republic National Bank of Dallas, Texas,** and election of new officers was announced Jan. 19 by Fred F. Florence, Chairman, Executive Committee, and James W. Aston, President of the bank.

Promoted from Vice-Presidents to Senior Vice-Presidents of the bank were Ben C. Ball, William H. Greenfield, William R. Hoge, and Albert L. Long.

R. R. Ferguson and John M. Zuber were promoted from Vice-Presidents and Trust Officers to Vice-Presidents and Senior Trust Officers.

Wayne E. Dean and Ben A. Walker were promoted from Assistant Vice-Presidents to Vice-Presidents.

A. J. Mason and John H. McGinnis, formerly Assistant Vice-Presidents and Trust Officers, were elected Vice-Presidents and Trust Officers.

* * *

By the sale of new stock, the **First National Bank of Beaumont, Texas,** increased its common capital stock from $2,000,000 to $2,300,000. Effective Jan. 6. (Number of shares outstanding 92,000, par value $25.)

* * *

Stockholders of the **First City National Bank, Houston, Texas,** at their annual meeting approved the issuance of 2,750,000 shares of $10 par value common stock to replace the present 1,375,000 shares with par value of $20, and elected John Edward Howell to the bank's board as an advisory director.

The common stock change will go into effect Feb. 9. It was voted by the bank's directors Aug. 20, and has already been approved by the United States Comptroller of Currency subject to ratification by stockholders.

Present shareholders will receive two shares of the new stock for every one share held as of Jan. 19. The effect will be to double the number of shares of First City National Bank common stock now outstanding.

* * *

By a stock dividend, the **Kleberg First National Bank of Kingsville, Texas,** increased its common capital stock from $300,000 to $500,000. Effective Jan. 13. (Number of shares outstanding 5,000,par value $100.)

* * *

**Sharpstown State Bank, Houston, Texas,** opened at Bellaire Blvd. and Hillcroft Ave., on Jan. 21. Charles E. McLean is President of the newly chartered bank.

The **Sharpstown State Bank** was granted a charter recently by the state banking commission, and is capitalized at $500,000.

B. D. Tucker, President of **Oak Forest State Bank,** is Board Chairman of the new bank. Mr. McLean, the President, is Executive Vice-President of the **Oak Forest State Bank.** Nelson Long, Vice-President of the **Oak Forest Bank,** occupies the same position at the Sharpstown bank.

Directors are C. E. Sweiven, Dr. Russell F. Bonham, William F. Heit, H. F. McMahon, Claude E. Hooton, Jr., Tucker and McLean.

* * *

**Valley National Bank, Phoenix, Arizona,** stockholders at their annual meeting heard Chairman of the Board Walter R. Bimson announce that the 25% stock dividend was approved by an overwhelming majority, based on a count of shareholders voting both in person and by proxy. They will receive one additional share for every four now held.

* * *

Walter C. Emery was elected President of the **Bank of Denver, Denver, Colorado,** succeeding the late George F. Rock.

* * *

Armando J. Zirpoli and Herbert W. Swenson were named Vice-Presidents of **Bank of America, San Francisco, California.**

* * *

**The Bank of California, N. A. San Francisco, California,** has received approval of supervisory banking authorities to establish branch offices in Pleasant Hill and Danville in Contra Costa County and Stevens Creek Road area in San Jose, it was announced on Jan. 20, by Edwin E. Adams, President.

* * *

At the annual meeting of shareholders of **Citizens National Bank, Los Angeles, California,** William H. Andrews, Senior Vice-President, Citizens National, and Henry Salvatori, were newly elected to the Board.

Mr. Andrews, became a Vice-President in 1942, and in 1956 moved up to his present position of Senior Vice-President.

* * *

Four new Directors were elected by the **United States National Bank of Portland, Oregon,** at the annual meeting Jan. 19, according to an announcement by E. C. Sammons, President.

New Board members are: Warren W. Braley, Gerald W. Frank, Frank E. McCaslin, and David L. Davies.

Four members of the Bord, who have been active on that body for years, were made advisory Directors. They include A. A. Binford, former Vice-President, retired, Lester Ireland, Sidney F. Woodbury, and John A. Zehntbauer.

# Data on Treasury Securities Market To Be Tabulated

**Federal Reserve Bank of New York announces it will gather data covering government securities dealers' transaction with itself or the Treasury. Move follows Congressional hearings and study of the subject.**

Alfred Hayes, President of the Federal Reserve Bank of New York, has announced the creation of a new Market Statistics Department. The Department will collect and process data on the Government securities market.

The new Department is being established by the Federal Reserve Bank of New York as a result of conclusions reached by the Treasury and the Federal Reserve System following an extensive study of the U. S. Government securities market made last year. On completion of the study and evaluation of its findings, the Federal Reserve and the Treasury decided that the range of factual information which has been available on the Government securities market should be broadened in order to serve more effectively the interest of the public and the interests of those participating in the market.

The new Department, which will become a part of the Research and Statistics function of the Federal Reserve Bank of New York, will gather data relating to their transactions from all Government securities dealers with whom the Bank transacts business for the account of the Federal Reserve System or the Treasury. In addition to making these data available for official use, it is contemplated that selected, aggregative data will eventually be published regularly on a current basis with appropriate time lag, and with suitable safeguards to insure the confidentiality of individual dealer information.

Mr. Hayes also announced that the directors of the Federal Reserve Bank of New York have appointed Miss Madeline H. McWhinney an officer of the Bank, and that he has assigned her as Manager of the new Department. Miss McWhinney has been an economist on the staff of the Federal Reserve Bank of New York since 1943. From 1955 to March, 1959 she served as Chief of the Financial and Trade Statistics Division. Since that time she has been a Special Assistant, and had an important part in preparation of the data on the operation of the Government securities market which served as a basis for the recent study of the market by the Treasury and the Federal Reserve System. She has also served from time to time on special assignments in the Securities Department of the New York Bank, assisting the Manager of the System Open Market Account, and as chairman of various research and statistical committees within the Federal Reserve System.

## Our Reporter on GOVERNMENTS

*BY JOHN T. CHIPPENDALE, JR.*

The money market is waiting for the Feb. 15 refunding announcement (expected today, Jan. 28) so that it can fit these new issues into the scheme of yields for government obligations. Also, there is another waiting game as far as the money market is concerned, namely the effects of the recent increase in the British bank rate from 4% to 5%. The international position of the dollar is not without some degree of vulnerability and the higher English bank rate may take funds from this country. In order to protect the position of the dollar, our money rates might have to move up again in light of what the British have done. Time will tell, however.

Even though the Treasury is not likely to be looking for new money until April, and with the current refunding out of the way, the government will soon be paying off obligations. Nonetheless, money is expected to continue tight and an increase in the prime rate as well as the discount rate are very distinct possibilities.

### One-Year Certificate Certain

The impending refunding operation of the Treasury is the main topic of conversation in money market circles. It seems to be rather obvious as to what the Treasury will do in meeting this large maturity since there are no possibilities of using a government bond as part of the refunding deal unless it should be decided to offer an issue with a payment date of longer than five years at a substantial discount from 100. Assuming there will not be any Treasury bonds in the option deal which is being expected by most money market specialists, it looks as though a one-year obligation, such as a certificate, will most certainly be part of the refunding package. A certificate usually has appeal to the Federal Reserve Banks which are among the large owners of the February 3¾s which are being refunded. Government agency accounts are also holders of the Feb. 15 issue and they might elect to exchange for a short obligation as well as for one with a note maturity.

However, it does not appear as though the Central Banks and government trust accounts will present any problem as far as the exchange of the maturing 3¾s are concerned since a tailor made issue or issues will most likely be offered to the owners of this maturity. In the past the Federal Reserve Banks and Treasury trust accounts have gone along with refunding offers about 100%.

### Five-Year Note Issue Also Likely

The note maturity obligation which is being predicted as part of the option deal that will be made to holders of the 3¾s will most likely have a maturity as close to five years as is possible since the desire to get due dates out as far as is feasible does not appear to have lost any of its vigor. Accordingly, it looks at this time as though the Treasury will undertake the new refunding with a package deal, consisting of an issue which will appeal to the holders who must have a short-term liquid obligation, and a somewhat longer security, one with a note maturity most likely very close to five years. Such issues should make the refunding operation a successful one since they should meet the investment requirements of those who own the 3¾s that are coming due.

The rate which the Treasury will have to put on the refunding issues will have to be high enough to be attractive not only to the present owners of the 3¾s but also to those who have funds and will be interested in buying the maturing 3¾s and exchanging them for the new securities. It is believed that the so-called "small investor" is going to be attracted to the refunding obligations if the rate is sufficiently attractive. And in this case it looks as though it will have to be at least 5% for both issues unless the Treasury puts in another obligation for surprise purposes, or should shave the rate a bit too thin.

An interest rate which would not be high enough could make the refunding operation a very unfavorable undertaking. Issues with the rate set by the Treasury of say 5% for a certificate and 5% or more for a note are going to have attraction for the savings bank, savings and loan and government savings bond type of individual in the opinion of most money market experts.

# World Bank Offers Swiss Franc Bonds

A Swiss franc issue of Bonds of the International Bank for Reconstruction and Development will be publicly offered in Switzerland from tomorrow, Jan. 29, through Feb. 5 by a syndicate of leading Swiss banks. The banks will offer at par Sw. fr. 60,000,000 (approximately $13,960,000) of 4½%, 12-year Bonds. This is the eighth public issue of the World Bank in Swiss francs. The Swiss Credit Bank, the Swiss Bank Corporation and the Union Bank of Switzerland head the underwriting group as they did in the previous offerings.

The new issue is dated Feb. 15, 1960, and matures on Feb. 15, 1972. The bonds will have no sinking fund and will be non-callable for eight years. On and after Feb. 15, 1968, the World Bank may redeem at par all or part of the issue on any interest payment date on 45 days' notice in case of partial redemption and three months' notice for total redemption.

Interest will be payable annually on Feb. 15, with the first payment due on Feb. 15, 1961. The issue will be listed on the stock exchanges of Zurich, Basle, Berne, Geneva and Lausanne.

Giving effect to the present issue, the aggregate of World Bank bond and note issues outstanding in Swiss francs will amount to about Sw. fr. 627 million (approximately $146 million).

## Coast Member Firm

SAN FRANCISCO, Calif.—Charles C. Samuels, member of the Pacific Coast Stock Exchange, has become a general partner of the new member firm of East-West Securities Co., and conferred the privileges of his membership on the firm.

The general partners of East-West Securities Co. in addition to Mr. Samuels are: Frank S. T. Hu and John Robert Leong.

The firm is located in the Russ Building.

## York Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

OROVILLE, Calif. — Joseph Hottinger has been added to the staff of York & Co., 2080 Myers St.

# Nixon Reveals Role in Pact Which Ended the Steel Strike

**Letter to executive editor of "Syracuse Herald-Journal" details role played by Secretary of Labor Mitchell and Nixon in the recent steel settlement. One of the points affirmed is that the amount settled for was less than "any offer" made at any time by the union during negotiations and amounted to about 30% less in company costs than would have been the case if the terms settled for were the same as that accepted by the canning and aluminum industries, and Kaiser.**

An insight into the Administration's role in mediating the recent steel labor-management bargaining dispute is provided in a letter written and made public by Vice-President Nixon. In effect, the Vice-President avers that he and Secretary of Labor Mitchell helped avert "even higher" union demands.

*The text of the Vice-President's letter to Alexander F. Jones, Executive Editor of "The Syracuse Herald-Journal," follows:*

January 21, 1960

Mr. Alexander F. Jones
Executive Editor
Syracuse Herald-Journal
Syracuse 1, New York

Dear Casey:

I greatly appreciated your letter of Jan. 5 and particularly the candor and frankness with which you discussed the steel settlement.

I realize that a number of questions have been raised as to the settlement and the role that Secretary Mitchell and I played with regard to it. I think perhaps the best way to answer those questions is to review the factors which led to our mediation efforts and the alternatives which confronted us.

As you will recall, just before the President left on his trip abroad, he said in his television address to the nation: "It is up to labor and management . . . to adjust responsibly and equitably their differences . . . what great news it would be if, during the course of this journey, I should receive word of a settlement of this steel controversy that is fair to the workers, fair to management and above all fair to the American people."

The first question the Secretary and I undertook to explore was whether the President's expressed desire for a settlement could be realized without some new mediation action on our part. Our preliminary discussions with representatives of both sides convinced us that there was no chance whatever for a settlement unless some new initiative was undertaken to bring them together.

We, therefore, asked Mr. Blough and other top management representatives and Mr. McDonald and other representatives of the union whether they wished us to attempt to mediate the dispute. While both sides indicated that they did not feel there was too much hope that they could reach a negotiated settlement, they agreed that such a procedure was worth trying and that they would cooperate to the extent possible. This was the origin of the meetings which took place in my home in which Secretary Mitchell, Mr. Blough, Mr. McDonald, Mr. Goldberg and I participated.

### Hopeless Beginning

At the beginning of these negotiations, the possibilities of settlement seemed hopeless. The companies' offer was for a wage-benefit package which the companies estimated would add 31¢ to their costs over a period of 30 months. In addition, the companies asked for revision of Section 2B of the contract so that management would have more control over local work practices which they felt was essential for increased efficiency.

The union completely opposed any changes in the work practices provision of the contract. On the economic side, Mr. McDonald at our first meeting bluntly stated, "I cannot settle with the steel companies for less than the amount that I received from Can and Aluminum without a strike." I think it is important at this point to recall that our negotiations began the week that he had completed his negotiation of the Aluminum contract. And the companies' computation of what McDonald contended was the Can and Aluminum pattern was an increased wage-benefit cost of 52¢ for 30 months.

In other words, at the beginning of the negotiations, the companies were offering a 31¢ increase over 30 months as against 52¢ demanded by the union and the parties were in complete disagreement on the local work practices issue. During our first few meetings we made very little progress. At a meeting in my home two days before Christmas, the negotiations reached a point where both sides refused to move any further in the direction of an agreement and there seemed to be a hopeless deadlock.

### New Course Adopted

It was at that point that the Secretary and I talked to Mr. Blough and Mr. McDonald separately and asked whether they thought it might be useful if we were to consult individually with each party and recommend an amount in between their two positions which each would be completely free to accept or reject if he saw fit.

Both agreed that this course of action might be helpful and after two days of intense negotiations and discussions and consultation with the President, we recommended the figure of 41¢ which both the union and management voluntarily accepted. As far as the work practices issue was concerned, the best that we were able to get the union to agree to was to set up a study commission with a neutral chairman.

I realize that a number of questions have been raised as to why we recommended the amount that we did. I think the answers to those questions can be found when we examine the bargaining position of each party.

Mr. McDonald came to these negotiations in a stronger position than the companies. He had just won from Aluminum and Can without a strike higher settlements than the one he eventually agreed to accept with the steel companies. Polls that he had taken (and incidentally, the polls the companies had taken substantiated his claims in this respect) indicated that the union members would vote down the companies' last offer by a majority of over 90%. He also believed that if the dispute were not settled and had to be sent to the Congress by the President he would do better in a Congress heavily dominated by members elected with union support in an election year than would the companies. Considering the strong bargaining position of the union, their agreement to a settlement which was less than the pattern that they had been able to negotiate with Can and Aluminum was, in my opinion, a major achievement.

Looking at the settlement from the standpoint of the companies, no one questions but that they agreed to an amount which was greater than they thought could be absorbed by increased worker productivity, though it is entirely conceivable that the rising efficiency between now and 1962 could offset the increase in labor costs during this period. In addition, the companies failed to win substantial concessions on the work rules issue. But company representatives have pointed out some of these positive factors which led them to agree to the recommended settlement.

### Positive Factors

(1) The amount they settled for was lower than any offer they had been able to get from the union during the course of their negotiations up to that time.

(2) It was less than half of the postwar pattern in wage-benefit increases in the steel industry. For example, in the last steel contract the wage-benefit increase was 81¢ for three years as compared with 41¢ for 30 months on this occasion.

(3) As Conrad Cooper, the chief negotiator for the companies has stated, the amount of this settlement was 30% less in company costs than would have been the case had the Can, Aluminum and Kaiser patterns been applied to steel. In other words, this settlement rather than setting off a new pattern of higher wage increases was actually lower than the pattern in wage settlements already established in 1959 and checked, rather than increased, the so-called "ripple" of increased wage costs.

(4) The cost of living escalator provision, which had resulted in a 17¢ wage increase over the three years of the previous contract, was finally limited in this contract to a maximum of 6¢ over 30 months. In addition, it is provided that if the insurance costs which the company has assumed under the contract prove to be greater than the amount estimated, the excess costs will be deducted from any cost of living increases which may have accrued.

A basic question which many have raised is whether a better result in the end would have been achieved had the Secretary and I not offered our good offices for mediation of the dispute at this time. This, of course, is a matter of judgment on which there can be an honest disagreement of opinion. I can only indicate my own appraisal as to what would have happened had we not acted as we did.

In my opinion, the price the union would have insisted upon would inevitably have gone up rather than down. It seems only logical to conclude that after the union had won an overwhelming victory rejecting the companies' last offer they would have insisted on an even higher settlement than they accepted at the present time. I also believe that if the parties had failed to agree after the union rejected the companies' last offer and the President, as required by law, had submitted the dispute to Congress any government-imposed settlement that the Congress would have brought about through compulsory arbitration, plant seizure or some other government device, would have been higher than the one agreed upon at this point.

I recognize that there are those who have suggested that it would have been better in the long run to allow the issue to go to the Congress so that the Congress could meet head-on the whole question of too much power in the hands of the union as well as management. I can only say that any objective observer would have to agree that there could be nothing more irresponsible than to place before the Congress in an election year the complicated and potentially explosive issue of labor-management relations.

### Feared Government-Imposed Settlement

In my opinion, the result would not only have been a government-imposed settlement of this dispute but a real possibility of the enactment of permanent legislation which would have provided for some form of government-imposed compulsory arbitration in all major labor disputes. I don't need to tell you that government arbitration means government wage fixing and that government wage fixing inevitably means government price fixing. Once we get into this vicious circle not only collective bargaining but the productive private enterprise system, as we know it, is doomed.

I would be the last to contend that there could not be honest differences of opinion as to the wisdom of the course of action the Secretary and I followed in mediating this dispute. But after weighing all the factors involved, we concluded that our failure to do everything possible to bring about a voluntary settlement at this time would have been highly detrimental to the public interest.

As Chairman of the Cabinet Committee on Price Stability for Economic Growth, I am acutely aware of the dangers of inflation which can arise from wage increases that consistently exceed increases in productivity. But on the plus side it should be noted that while the wage-benefit increase was greater than the companies wanted to pay, this was the first contract since the war in which the increase was such that the companies did not find it necessary to increase prices at the time the contract went into force. Whether price increases can be avoided in the future will depend to a great extent upon how the union and the companies carry out the President's injunction in his State of the Union message that . . . "the national interest demands that in the period of industrial peace which has been assured by the new contract, both management and labor make every possible effort to increase efficiency and productivity in the manufacture of steel so that price increases can be avoided."

Incidentally, I believe that one of the constructive results of the long fight the companies made on the work rule issue was that it focused nationwide attention on the critical necessity of increasing our efficiency and productivity if we are to maintain our competitive position in the world.

As I told the representatives of the major companies and the union at a dinner in my home after the settlement, the people of the country will not tolerate another massive struggle of this type in the steel industry. Their interest, as well as that of the country at large, will be at stake as they explore every possible means of increasing productivity, reducing costs, and improving relations between union and management during the period of this contract.

For my part, I intend to continue my studies of this problem with a view to determining what legislative action might be taken which would provide better protection for the public interest in the settlement of labor-management disputes and at the same time not impair the basic strength of our private enterprise economy.

With every good wish,

Sincerely,

RICHARD NIXON.

## Holman Honored by Marine Industry

**Richard A. Holman, President of R. A. Holman & Co., Inc., New York City, was selected to receive the Award of Merit presented by Marine Dealer for outstanding pioneer work in promoting public interest and awareness of the pleasure boating industry. His firm is the first to make available specialized public financing to boating manufacturers, and to offer such securities to the investing public. The award was made during the 1960 National Motor Boat Show.**

**The only individual so honored, Mr. Holman received his award at a brief presentation ceremony, during which the National Association of Engine & Boat Manufacturers Inc. (sponsors of the National Motor Boat Show) and the National Association of Marine Dealers received similar awards for their outstanding, original pioneer work in promotion of pleasure boating.**

## Coast Exchange Member

Election of John F. Fletcher to represent the firm of E. P. Fletcher & Sons as a member of the Pacific Coast Stock Exchange, through the purchase of a membership on the Los Angeles Division, effective Jan. 22, 1960, has been announced by William H. Jones, Chairman of the Board.

E. P. Fletcher & Sons, a newly organized brokerage firm with offices at 214 Del Mar Avenue, San Clemente, California, is a partnership composed of Mr. Fletcher and his brother, Dale E. Fletcher.

Mr. John F. Fletcher attended Claremont Men's College and the University of Southern California, majoring in Finance. For the past two years he has been associated with a large securities firm in Southern California.

## With Eppler, Guerin

DALLAS, Tex.—John W. Turner, President of Eppler, Guerin & Turner, Inc., Fidelity Union Life Building, members of the New York Stock Exchange, has announced the association of Bruce V. Penwell, Jr., who will represent the firm in East Texas and Arkansas.

# STATE OF TRADE AND INDUSTRY

*Continued from page 5*

$91.53 reflecting increases in both the workweek and average hourly earnings.

### Distribution

Seasonally adjusted retail sales declined slightly in December and were 4% below the highs reached in the spring and again in October. While sales at department stores and at some other retail outlets reached new highs for December, deliveries of new autos declined further owing to limited supplies. Toward the end of the month, supplies of new autos were improving rapidly.

### Commodity Prices

Average commodity prices at wholesale in December and early January remained at the November level. Settlement of the steel strike and expanding industrial activity strengthened demands, and prices of such industrial materials as zinc and steel scrap advanced. Prices of most other materials, however, and of finished products were unchanged. Prices of farm products and foods also generally changed little.

### Bank Credit and Reserves

Total commercial bank credit increased in December reflecting principally further substantial loan growth. Holdings of U. S. Government securities rose early in the month, when the Treasury issued $2 billion in new bills, but subsequently declined somewhat. The seasonally adjusted money supply changed little and at the end of December was about one-half of 1% larger than a year ago.

Member bank borrowings from the Federal Reserve averaged $960 million and excess reserves $565 million over the four weeks ending Jan. 13. In late December, reserves were absorbed principally by currency outflow and a reduction in Federal Reserve System holdings of U. S. Government securities and were supplied by an increase in Reserve Bank float. In early January, funds were provided by the post-Christmas currency inflow and were absorbed by further reduction in System holdings of U. S. Government securities and a decline in float. Required reserves increased in mid-December, when bank credit rose, but subsequently declined.

### Security Markets

Yields on all maturities of Treasury securities and on other bonds rose from mid-December to early January, in most cases reaching new postwar highs. In early January the Treasury sold $2 billion of tax anticipation bills for cash and rolled over into a new one-year issue all but $500 million of $2 billion of maturing quarterly bills. Subsequently, yields on Government securities declined somewhat. Prices of common stocks advanced at the year-end to within 1% of the August high and then declined.

### Bank Clearings Up 6.7% Above 1959 Week

Bank clearings this week will show an increase compared with a year ago. Preliminary figures compiled by the "Chronicle" based upon telegraphic advices from the chief cities of the country, indicate that for the week ended Saturday, Jan. 16, clearings for all cities of the United States for which it is possible to obtain weekly clearings will be 6.7% above those of the corresponding week last year. Our preliminary totals stand at $27,422,993,362 against $25,692,288,249 for the same week in 1959. Our comparative summary for the leading money centers during the past week follows:

| Week End. Jan. 23— | 1960 (000 omitted) | 1959 (000 omitted) | % |
|---|---|---|---|
| New York | $13,910,380 | $13,376,743 | + 4.0 |
| Chicago | 1,392,646 | 1,229,405 | +13.3 |
| Philadelphia | 1,227,000 | 1,120,000 | +23.2 |
| Boston | 855,677 | 795,577 | + 7.6 |

Complete details of the bank clearings throughout the nation appear on page 45 of our Monday, Jan. 25, edition.

### 1959 Building Permit Values Reach Record Level

The total value of building permits for 217 cities last month was at the highest level for any December on record, boosting the total for 1959 as a whole to a new peak, reports Dun & Bradstreet, Inc. The 1959 total amounted to $7,592,772,213, for a gain of 10.0% from the prior record of $6,899,453,863 set in 1958.

New York City plans filed during 1959 rose a sharp 44.8% to $1,233,400,365 from the 1958 $851,552,782. This was a new record for New York, exceeding the prior peak of $861,609,508 set in 1956 by 43.2%. Permits in the 216 outside centers had a valuation of $6,359,371,848 in 1959, compared with $6,047,901,081 in 1958, for a gain of 5.2%.

Building permits isued in 217 cities in December amounted to $619,983,651, exceeding the prior December record set last year by 35.1% when the total was $458,900,150. There was a gain of 10.9% over the prior month's $559,021,567.

### Construction Contracts Set New Record in 1959

Construction contracts in the United States (excluding Alaska and Hawaii) in 1959 set an all time record of $36.3 billion, according to F. W. Dodge Corporation, despite declines in the last five months of the year.

The total for the year was 3% ahead of 1958, the previous record year, Dodge reported.

December contracts totalled $2,224,060,000, down 3% below December of 1958.

Dodge Vice-President and chief economist George Cline Smith said that the December figures showed encouraging strength, despite the 3% drop.

"The December decline was the smallest in any of the past five months," Dr. Smith said, "and the seasonally adjusted Dodge index actually rose from 231 in November to 244 in December.

"Moreover, the drop in December was almost entirely the result of a steep decline in highway contracts, as the result of problems peculiar to that one area. Nearly everything else was up."

### Auto Demand Keeps Steel Mills Boiling

Near-record auto production is the dominant factor in the steel market, "The Iron Age" reports.

With auto output approaching the all-time high rate of 1955, virtually all steel products that have an automotive market are in tight supply. And they will stay that way as long as production continues to soar, the national metalworking weekly says.

The magazine points out that this week's schedule of 178,000 cars is the highest since December, 1955. Output is creeping toward the all-time weekly high of 184,114 set in the last week of April, 1955.

And it's likely that production will continue to edge up for some weeks, the magazine says. Additional assembly operations for the small cars will be a factor in production gains.

As a result of the soaring auto output, cold-rolled sheet, hot-rolled sheet and hot and cold-finished bars used by automakers are tight. There will be little easing until auto production tapers off from the first-half surge.

Other major factors in the steel market are the demands from can makers for tinplate and the continued strong demand for galvanized. Tinplate may be the most critical product, the magazine observes. Mills are having difficulty rebuilding their in-plant reserves of tinplate and some won't be able to get satisfactory stocks before canners come in with heavy seasonal demands.

But overall, order has been restored to the steel market for most products, "The Iron Age" remarks. Mill shipments are ahead of consumption and some major users are able to get inventories into fairly good balance.

The market is far from easy, however. Conversion will continue through the first quarter and in the second quarter in the Midwest. Conversion deals (obtaining semi-finished steel from one source for finishing at another plant) were very successful in helping major steel users, particularly automotive, over the rough spots after the strike.

Other than automotive, the market begins to look less frantic, the magazine reports. There have been some deferments and cancellations. In small quantities, plates and structurals have been offered for late February or March, wire in two to three weeks, oil country seamless in two months.

Mills have obtained better production than expected and mill schedules are now clearly known. Customers, although probably not getting all the steel they would like, do have some assurance of continued supply.

### Steel Inventories Being Rebuilt Rapidly

Steel users are rebuilding their strike depleted inventories at a rapid rate, "Steel" the metalworking weekly, reported.

Shipments of finished steel are running about 25% ahead of consumption. Users are expected to add 4.5 million to 5 million tons to their stocks in the first quarter.

Expected this month are shipments of about 8.5 million tons; consumption of 6.8 million tons; and an addition of 1.7 million tons to users' stocks. The pattern will be repeated in February. Consumption in March may jump to 7.4 million tons as automakers strive to reach their first quarter production goals and better weather stimulates building activity.

Users aren't pushing as hard as they were for quick deliveries. But order cutbacks are few and cancellations almost nil.

Normal leadtimes have been restored in many product areas (standard structurals, merchant wire, rails, stainless steel), and it's apparent that the availability of plates, bars, and tubular items has improved.

Demand for sheets and tin plate is nearly as strong as it was before the strike settlement. Users expect a tight market through June, but they are concentrating on getting first quarter deliveries. Automakers are still pressing for all the sheets they can get.

Service centers expect to rebuild depleted inventories by April, "Steel" said. Stocks are around the 1 million ton level (vs. 825,000 tons in early December), but it'll be past midyear before they reach a normal 3.4 million tons.

Stocks of tool steel and stainless at service centers have been practically replaced. Daily improvement is reported in several categories: Cold finished bars, structurals, hot rolled bars, and plates. But sheet mill products won't be back into balance until late June or July.

Demand for galvanized products is mounting, "Steel" said. Of every 15 tons of finished steel produced in 1960, about 1 ton will be galvanized. An estimated 527,430 tons of zinc will be channeled into the production of a record 6,323,329 net tons of galvanized iron and steel products this year.

Foreign steel prices are being cut, "Steel" said. Determined to keep the American accounts picked up during the strike, steelmakers in Western Europe have reduced the price of hot rolled sheets by $40 a ton. Cold rolled and galvanized sheets have been reduced by $26. Other prices have also been cut.

In a related development, an American producer of ferromanganese, a raw material of steelmaking, reduced its basic price from $245 net ton to $220, f.o.b. shipping point. French producers quote $150 to $155 a ton delivered to Pittsburgh.

Last week, steelworks operations were steady at 95.5% of capacity. Output, about 2,721,000 ingot tons.

"Steel's" composite on No. 1 heavy melting steel rose another 66 cents to $42.33 a gross ton. Exports are providing market support in Eastern districts.

### This Week's Steel Output Based on 95.4% of Capacity

The American Iron and Steel Institute announced that the operating rate of the steel companies will average *169.1% of steel capacity for the week beginning Jan. 25, 1960, equivalent to 2,717,000 tons of ingot and steel castings (based on average weekly production of 1947-49). These figures compare with the actual levels of 169.8% and 2,727,000 in the week beginning Jan. 18.

Actual output for the week beginning Jan. 18 was equal to 95.7% of the utilization of the Jan. 1, 1960 annual capacity of 148,570,970 net tons. Estimated percentage for this week's forecast, based on that capacity, is 95.4%.

A month ago the operating rate (based on 1947-49 weekly production) was *169.7% and production 2,726,000 tons. A year ago the actual weekly production was placed at 2,178,000 tons, or 135.6%.

*Index of production is based on average weekly production for 1947-49.

### Auto Production Continues in High Gear

The U. S. auto industry, now in the fifth month of '60 model passenger car production, turned out as of Jan. 25 nearly as many compact cars as it did in the entire 1959 model run, "Ward's Automotive Reports" announced.

"Ward's" said Rambler and Lark plus the introduction of the three newest compact models—Valiant, Corvair, and Falcon—has boosted production through the week ended Jan. 23 to an estimated 500,600 such units. This compares with 505,748 Ramblers and Larks produced in entire '59 model year by American Motors Corp. and Studebaker-Packard.

The statistical agency added that the five small car makes now in production have accounted for 25% of entire '60 model car output to date of an estimated 2,053,039 units.

According to "Ward's," the 2,000,000th '60 model passenger car was scheduled to be completed on Jan. 22. This is nearly a full week ahead of the same event in the '59 model run.

The industry continued its heavy overtime production schedule week, "Ward's" said, with 77% of the nation's 48 assembly plants operating on Jan. 23. These included 19 General Motors plants, 17 Ford Motor Co. plants and the Rambler works at Kenosha, Wis.

The week's car production was estimated by "Ward's" to reach 178,000 units, the highest volume for the industry since Dec. 9, 1955, when 178,409 cars were completed. During the same week in 1959, car output totaled 126,843 units.

"Ward's" said combined car and truck production would amount to an estimated 209,279 units, increasing 38% over output during the same week a year ago (151,318).

### Electric Output 8.4% Above 1959 Week

The amount of electric energy distributed by the electric light and power industry for the week ended Saturday, Jan. 23, was estimated at 14,523,000,000 kwh., according to the Edison Electric Institute. Output was 287,000,000 kwh. above that of the previous week's total of 14,236,000,000 kwh. and showed a gain of 1,129,000,000 kwh., or 8.4% above that of the comparable 1959 week.

### Carloadings Show 3.3% Gain Over 1959 Week

Loading of revenue freight for the week ended Jan. 16, 1960, totaled 605,757 cars, the Association of American Railroads announced. This was an increase of 19,415 cars or 3.3% above the corresponding week in 1959 and an increase of 32,871 cars or 5.7% above the corresponding week in 1958.

Loadings in the week of Jan. 16, were 14,242 cars or 2.4% above the preceding week.

### Intercity Truck Tonnage 6.9% Above 1959 Week

Intercity truck tonnage in the week ended Jan. 16, was 6.9% ahead of that of the corresponding week of a year ago, the American Trucking Associations, Inc., announced. Truck tonnage was 1.3% ahead of that of the previous week of this year.

These findings are based on the weekly survey of 34 metropolitan areas conducted by the ATA Research Department. The report reflects tonnage handled at more than 400 truck terminals of common carriers of general freight throughout the country.

### Lumber Shipments 1.5% Below 1959 Week

Lumber shipments of 459 mills reporting to the National Lumber Trade Barometer were 6.8% below production during the week ended Jan. 16, 1960, and 1.5% below the corresponding week in 1959. In the same week new orders of these mills were 8.2% below production. Unfilled orders of reporting mills amounted to 38% of gross stocks. For reporting softwood mills, unfilled orders were equivalent to 19 days' production at the current rate, and gross stocks were equivalent to 47 days' production.

For the year-to-date, shipments of reporting identical mills were 8.4% below production; new orders were 11.3% below production.

Compared with the previous week ended Jan. 9, 1960, production of reporting mills was 11.1% above; shipments were 15.5% above; new orders were 20.3% above. Compared with the corresponding week in 1959, production of reporting mills was 0.2% above; shipments were 1.5% below; and new orders were 12.5% below.

### Business Failures Continue Upward

Commercial and industrial failures rose to 302 in the week ended Jan. 21 from 292 in the preceding week, reported Dun & Bradstreet, Inc. This increase lifted casualties slightly above the 296 in the similar week last year, but they did not reach the toll of 333 occuring in 1958 and remained 18% below the pre-war level of 367 in 1939.

Failures involving liabilities of $5,000 or more climbed to 261 from 254 in the previous week but did not equal the 266 of this size a year ago. Small casualties, those with liabilities under $5,000, edged to 41 from 38 last week and exceeded considerably their 1959 total of 30. Liabilities ranged above $100,000 for 33 of the concerns failing during the week as against 35 in the preceding week.

Tolls edged up slightly in all industry and trade groups except wholesaling where casualties dipped to 24 from 26. Failures among retailers were up to 152 from 151, among manufacturers to 51 from 48, among construction contractors to 50 from 47, and among commercial services to 25

from 20. More retail and service businesses succumbed than a year ago, but mortality in other lines dipped below 1959 levels.

The week's upturn was concentrated in three geographical regions: the Middle Atlantic States, where the toll climbed to 122 from 108; the East North Central, up to 44 from 38, and the West North Central, up to 18 from [illegible]. Mild declines prevailed in five regions, with the Pacific States' toll off to 51 from 57 and the South Atlantic States' toll down to 23 from 31. No change occurred in one region — the East South Central. Trends from 1959 were mixed; failures in five regions equalled or exceeded year-ago levels while four regions reported fewer casualties.

### New York Cotton Exchange Adopts New Futures Contract

The membership of the New York Cotton Exchange on Jan. 22 adopted a new contract for the future delivery of cotton. Trading in this new contract will start Feb. 10 and will be for delivery in October, 1961 and thereafter.

The salient features of the new contract are: (a) full grade premiums for the split grades, which in the trade are called Low Middling plus, Strict Low Middling plus and Middling plus which defines cotton of a quality better than the grade named but of less value than the next higher standard, and (b) full staple premiums for 1 1/16 inch cotton and on the delivery of 1 3/32 inch cotton and longer the full staple premium for 1/16 inch plus 75% of the difference between 1 3/32 inch and 1 1/16 inch. These changes, although only two in number, are fundamental, as it is felt the new contract will offer a more equitable hedging instrument in the trade.

The staple premium for 1 1/16 inch cotton and longer on delivery under the current contract is limited to the full average premium for 1 1/32 inch plus 75% of the difference between 1 1/32 and 1 1/16 inch staple. It will be noted the new contract increases the premium for the longer staples which tends to bring it more in line with spot values.

Contracts made under the current terms will continue to be traded in for delivery through September, 1961. After expiration of trading in that month, all contracts for the future delivery of cotton on the New York Cotton Exchange will provide for the changes adopted.

### Wholesale Food Price Index Rises For Second Week in a Row

For the second consecutive time the Wholesale Food Price Index, compiled by Dun & Bradstreet, Inc., rose this week. It stood at $5.80 on Jan. 19, up 0.3% from the prior week's $5.78, but 6.9% below the $6.23 of the corresponding date a year ago.

Contributing to the week-to-week increase were higher prices on corn, beef, butter, sugar, coffee, potatoes, rice, steers, and hogs. Down in price were flour, wheat, oats, barley, lard, cheese, cocoa, eggs and raisins.

The Index represents the sum total of the price per pound of 31 raw food stuffs and meat in general use. It is not a cost-of-living index. Its chief function is to show the general trend of food prices at the wholesale level.

### Wholesale Commodity Price Index Stays Close to Prior Week

Lower prices this week on most grains, sugar, cotton and rubber offset increases on lard, hogs, steers, lambs and steel scrap holding the general commodity price level close to the prior week. The Daily Wholesale Commodity Price Index, compiled by Dun & Bradstreet, Inc., stood at 274.10 (1930-32=100) on Jan. 25, compared with 274.16 a week earlier and 275.18 on the corresponding date a year ago.

Although receipts were light, trading in corn was sluggish during the week and prices were down somewhat. Volume in oats lagged holding prices below week earlier levels. Unfavorable weather conditions in growing areas helped wheat prices remain close to the prior week, but receipts were steady. The buying of rye was slow and prices dipped slightly. Both domestic and export buying of soybeans picked up and supplies in some markets were limited; this helped prices rise somewhat.

There was a marked rise in trading in flour this week, but prices were unchanged from a week earlier. Domestic and export buyers increased their purchases of rice this week and prices were steady. Trading in rice is expected to remain at current high levels in the coming weeks as traders prepare for the Lenten season.

Transactions in sugar were limited and prices were down somewhat. Total deliveries of beet sugar in 1959 came to 41,954,379 bags, compared with 42,296,966 in 1958, according to the U. S. Beet Sugar Association.

A slight rise occurred in coffee trading during the week, and prices matched those of a week earlier. The prospect of spreading price support programs resulted in a slight rise in cocoa prices last week and trading was up somewhat.

Higher receipts and increased buying at the end of the week helped hog prices rise moderately from the prior period. Cattle receipts were also up moderately and trading in steers expanded somewhat; prices on steers were fractionally higher than a week earlier. There was a slight increase in lamb prices as trading and salable supplies moved up somewhat.

Trading on the New York Cotton Exchange dipped moderately during the week, and prices were slightly lower. The domestic consumption of cotton for the five weeks ended Jan. 2 came to about 800,000 bales, compared with 725,000 in the preceding five weeks and with 720,000 in the comparable period last season, reported the Census Bureau.

### Bad Weather Curbs Retail Trade Volume

Snow and cold weather in many areas held consumer buying this week below the prior period, but volume was up slightly from the similar 1959 week. The effects of the bad weather were offset in part by continued clearance sales promotions holding volume in women's apparel, furniture, and appliances over a year ago. Purchases of new passenger cars picked up moderately and exceeded those of last year, according to scattered reports.

The total dollar volume of retail trade in the week ended this Wednesday was 1% to 5% higher than a year ago, according to spot estimates collected by Dun & Bradstreet, Inc. Regional estimates varied from the comparable 1959 levels by the following percentages: Mountain +4 to +8; South Atlantic +3 to +7; East North Central +2 to +6; New England +1 to +5; Middle Atlantic, East South Central, and West South Central 0 to +4; West North Central and Pacific Coast —1 to +3.

Although purchases of women's apparel dipped from the prior week, volume was up moderately from last year, with principal gains in coats, suits, and dresses; interest in sportswear and resortwear remained close to that of the similar 1959 week. Year-to-year declines in men's sportswear and furnishings offset gains in suits and topcoats holding over-all volume in men's apparel close to a year ago. Moderate increases over last year were maintained in children's merchandise.

Attracted by reduced-price sales promotions, shoppers held their purchases of furniture at prior week levels, and volume was up somewhat from last year; best-sellers were occasional tables and chairs and bedding. There were appreciable year-to-year gains in sales of appliances, especially television sets, lamps, and laundry equipment. The buying of linens and floor coverings was up substantially from a year ago.

Food sales at retail declined somewhat from a week earlier. On the downside were canned goods, poultry, fresh meat, and baked goods. Volume in dairy products and frozen foods was steady.

Furniture wholesalers in New York, Los Angeles, Dallas, and other cities reported appreciable year-to-year gains in orders this week, with interest centering primarily on case goods, bedroom sets, and dining room sets. Volume in floor coverings in New York was the best in several years. Wholesale buying of appliances was well over a year ago in most markets; best-sellers were refrigerators, laundry equipment, and lamps. There were moderate gains over last year in the call for linens and draperies.

Wholesale volume in women's Spring apparel remained at the high level of the prior week, and volume was up substantially from a year ago; buyers were most interested in coats and suits. In contrast, wholesalers were a little disappointed in sales of blouses, sportswear, and some accessories. Purchases of men's Spring and Summer merchandise were good at showings in the South, mid-West, and West; the most noticeable year-to-year gains occurred in wash and wear suits. The buying of children's and infants' clothing slightly exceeded that of a year ago.

Transactions in cotton gray goods were sluggish again this week, as supply shortages in some lines limited trading; there were some scattered orders for cotton drills. Volume in industrial fabrics and man-made fibers was sustained at a high level. Boston mills reported a slight dip in activity in woolens and worsteds, but appreciable gains are expected soon. The call for carpet wool matched that of a week earlier. Mid-Atlantic dyers and finishers reported a slackening in incoming orders during the week.

A moderate rise occurred this week in the wholesale buying of frozen foods, and further gains are anticipated in the coming weeks. Increased trading in canned vegetables and citrus fruit juices occurred, while the call for butter, cheese, eggs, and poultry was unchanged from the prior week. Slight increases were reported in purchases of fresh meat, flour, and rice.

### Nationwide Department Store Sales Up 3% for Jan. 16 Week

Department store sales on a country-wide basis as taken from the Federal Reserve Board's Index for the week ended Jan. 16, 1960, increased 3% above the like period last year. In the preceding week, for Jan 9, an increase of 9% was reported. For the four weeks ended Jan. 16 a 12% increase was registered over the same period in 1958.

According to the Federal Reserve System department store sales in New York City for the week ended Jan. 16 remained unchanged over the like period last year. In the preceding week ended Jan. 9, 1960 a 9% increase was shown. For the four weeks ending Jan. 16 a 11% increase was reported over the 1959 period.

# A Year of Advance With Some Gathering Clouds

*Continued from page 3*

consequences of the long steel strike.

The Federal Reserve Index of Production, standing at 148 in November, was then midway between the 155 high of June and the 141 figure of November 1958. These are the old figures; the recent revision puts the June high at 166 and the November figure at 156. Presumably the December figure is back not far from the June high.

The gross national product was at an annual rate of $484.5 billion for the second quarter, dropped to $478.6 billion in the third quarter, and quite probably came up to a new high of $486 billion for the fourth quarter, to make a total of $480 billion for the year.

Personal income in November was at a new annual rate peak of $385 billion as against $367 billion in November 1958. Correspondingly, personal consumption expenditures for all goods and services at the year-end were currently running at an annual rate of some $316 billion, with a total of approximately $311 billion for the year.

The total retail sales volume for the calendar year was approximately $215 billion versus $200 billion in 1958, a rise of 7.5%; and department store sales, up 7% or 8% for December, registered an advance of approximately 7% for the calendar year. For the fiscal year, ending Jan. 31 for a majority of stores, it seems probable that this margin of difference will be maintained. It should be observed, however, that on a seasonally adjusted basis, department store sales have fallen off somewhat from the high point of July and August. Clearly the improvement in department store earnings for 1959 over 1958 will be appreciable as a result both of increased sales and of higher gross margin ratios. Whether the 1959 results will yield any improvement in the expense figure is more questionable.

Prices currently are stable, with the wholesale price index in the vicinity of 119 in terms of the 1947-1949 base, virtually unchanged for the past year, while the consumer price index, at 125.6 for November, has moved up about 1½% over the year. Thus the year 1959 was substantially one of price stability.

Unemployment, at 3.7 million in November, or 5.6% of the civilian labor force on a seasonally adjusted basis, was virtually unchanged from a year earlier but undoubtedly would have been lower were it not for the repercussions of the steel strike.

## II

Now turning to an appraisal of the prospects for 1960, we must in the first place enter the usual caveat that no forecast carries any validity in the event of an unexpected upset in international relations. (In passing, I must make note of my personal conviction that the position of the Western World in the current cold war-cold peace contest with communism continues to deteriorate.) An indication of the pattern of my analysis of the 1960 outlook is afforded by the caption which I have given to these remarks — "1960 — A Year of Advance With Some Gathering Clouds." As in other years, I shall place chief emphasis on the short-run outlook for the major streams of spending in the economy, i.e., the principal component parts of the gross national product. In putting the emphasis here I am not disregarding the valuable work of the National Bureau of Economic Research in analyzing the so-called sensitive indicators, that is, the business series that have shown predictive value. Although several of the "leading" and coincidental" indicators have recently shown some weakness, it is most difficult to sort out the effects of the steel strike; and hence these indicators do not now afford a good basis for a forecast. Hence I shall rely principally on the conventional "flows of spending" approach, and my forecast on this basis will not differ appreciably from many of those which you have been reading in the business press for the last two or three weeks. Beyond any such short-run appraisal, however, I believe it would be remiss not to remind ourselves of some of the clouds that are gathering and which may begin to cast some darkening shadows by 1961 or even possibly late 1960. These are the clouds that are rising in such quarters as our changed economic relationships with the remainder of the Western World, where we seem to have come to the end of an era; the approaching climax of the inflation-deflation tug-of-war; and the heightened political struggle of management and labor.

## III

Coming then to the assessment of probable changes in the major flows of spending for 1960, the areas that are significant comprise government spending, business spending for plant and equipment, business spending for inventories, the construction industry, consumer spending, and foreign trade.

### (A) Government Spending

Thanks to the leadership of the present Administration, Federal Government spending for 1959 did not show so great an increase as expected. Currently such spending is running only at the rate of about $½ billion over a year ago. Although a deficit is still possible at the end of the Federal Government fiscal year next June, a small budget surplus is increasingly probable, and a surplus in cash account is practically certain. For the calendar year 1960 it seems unlikely that the Federal Government outlays will lie much outside a range of $52½ billion to $53½ billion. Thus, in sharp contrast to some other years, the role of Federal Government spending in the 1960 economy will be largely neutral. (Again, I cannot refrain from expressing parenthetically a personal conviction that the nation ought and could afford to spend substantially more on national defense than the present budget contemplates.)

State and local expenditures, on the other hand, are currently about $4 billion above a year ago on an annual rate; and some increase is to be anticipated in the 1960 total, although it may not be so great an increase as 1959 registered over 1958. For one thing, stiffer money rates are making it more difficult to raise funds for state and local government expenditure; highway building, in particular, may be curtailed.

Altogether I think 1960 is one year when we may say that government spending is not likely to be a major determining factor either way in the business outlook.

### (B) Business Spending for Plant and Equipment

A major cause of the 1958 recession, of course, was the drop in business spending for capital goods. Outlays for plant and equipment fell off 17% in 1958 to a figure of $30.5 billion, but during 1959 picked up a bit more than expected to a total of per-

*Continued on page 52*

# A Year of Advance With Some Gathering Clouds

*Continued from page 51*

haps $32.5 billion, with a fourth-quarter rate well above $33 billion, a figure that would have been higher except for the steel strike. The well-known McGraw-Hill survey estimates an increase of 10% in this sector of business spending in 1960, carrying the total to the vicinity of $37 billion. Also the survey of the National Industrial Conference Board on capital appropriations by the 1,000 largest manufacturing companies indicates that new appropriations in the third quarter of 1959 were 53% above the preceding year. These findings support an estimated increase of 10%, and some observers would place their guesses considerably higher. Continued pressures operating in the direction of increased plant and equipment outlays include expanding markets, growing obsolescence, rapid technological progress, and the rise of wage rates operating to intensify demand for cost-cutting equipment. In the face of these trends, any existing areas of overcapacity are likely to be strictly temporary. Favorable also is the rising trend of business profits, only temporarily interrupted in certain industries by the steel strike.

On the other side of the ledger, however, cognizance of course must be taken of the tight money situation. Will funds be available for substantial expansion of plant and equipment expenditures? There are no signs on the horizon that the present tight money situation will abate appreciably in 1960. The financing problems of the U. S. Treasury will be less acute than in 1959, and mortgage demand will be less urgent; but it is quite possible that rising consumer credit and business demand for funds may force interest rates up another notch between now and the middle of the year, and a further rise in the rediscount rate is not unlikely. As usual, however, one must distinguish between the price of funds and the availability of funds. With respect to the availability of funds, much depends on the tempo of the 1960 business advance. Should that tempo be gradual and fairly smooth, it seems unlikely that spending for capital goods will be hampered by unavailability of funds. On the other hand, should the tempo be rapid, disorganized, and speculative in character, the money markets might find themselves unable at some time during 1960 to meet all demands.

In summary, an estimate of $37 billion for plant and equipment spending in 1960 seems reasonably conservative. The emphasis will probably continue to be on modernization rather than expansion.

### (C) Business Spending for Inventories

Here is the element that has proved to be the most volatile one in the business equation during the past two years. In the first quarter of 1958, business inventories were being drawn down at the unprecedentedly sharp annual rate of $9½ billion, a decline so sharp that it led to an early reversal of the business downtrend. Then in the first half of 1959, business inventories were accumulated, largely in anticipation of the steel strike, at practically as rapid a rate as they had been depleted in the preceding year. From December 1958 to the end of July 1959 there was an advance of nearly $5 billion. Since that time inventories have been drawn down as a result of the strike, but not to the low point of mid-1958. These comments, of course, apply particularly to inventories of steel and such finished products as automobiles. Wholesale inventories generally and department store inventories in particular are reasonably high.

Clearly a substantial buildup in certain types of inventories is to be expected in the first half of 1960. The buildup will be accentuated by the fact that a normal rate of growth for the economy requires inventory additions at the rate of only a little less than $3 billion a year. As remarked earlier, the tempo of this buildup is important. Momentum and optimism easily could be generated, and apparent temporary shortages in particular lines of industry might nudge prices up. Under some circumstances the rate of inventory buildup in the spring of 1960 could be not far from the rapid rate experienced in the spring of 1959. Many of the questionmarks about the 1960 course of business have their locus in this area. It is not difficult to visualize a strong resumption of inflationary pressures. Clearly the character of the steel strike settlement is a victory for inflation, even though some of the long-run implications may dampen business enthusiasm. Certainly inventories will rise in this first half year, but my tentative guess is that most of the advance in inventories will be concentrated in this nearby period and that the rate of inventory growth will flatten out considerably in the last six months. A total inventory increase for the year ranging anywhere from $4 billion to $6 billion (at 1959 prices) certainly is plausible.

Before leaving this topic let me remark that I see no case for any marked buildup of department store inventories, particularly in soft goods. Indeed, textile inventories might begin to prove burdensome after midyear if that industry should go, as some observers expect, into one of its periodic downtrends in the second half of 1960.

### (D) Construction

Clearly private nonfarm housing starts have turned down as a consequence of high interest rates, the scarcity of mortgage money, and high building costs. The November figure was an annual rate of 1,210,000; for the year as a whole it will be well over 1,300,000, a somewhat better figure than was generally forecast a year ago. For 1960, estimates range in the area of 1,100,000 or 1,200,000. The dollar amount of private housing construction thus will be down moderately in 1960 as compared with 1959, though rising costs will make the difference less than indicated by the falling off in the number of starts. On the other hand, some increase in home modernization is projected; likewise some increase in educational and institutional construction. Commercial construction, however, may fall off somewhat.

Dollarwise, therefore, the construction industry probably will not be down very much in 1960 and conceivably could be about even with last year. But it is to be remembered that an important factor in the dollar figures is the increase in costs. The physical volume of construction will be down. No very big surge in private housing construction is to be anticipated so long as the tight money situation lasts.

### (E) Consumer Spending

Consumer spending comprises the three major sectors of consumer durable goods, consumer nondurable goods, and services. For 1959, personal consumption expenditures were approximately $311 billion, divided approximately $43 billion for durable goods, $147 billion for nondurable goods, and $121 billion for services. Prior to appraising the outlook for consumer spending in these categories we must look at the general factors bearing on consumer ability to buy and consumer willingness to buy.

(1) Personal income is currently at an annual rate of about $385 billion. The total for the year 1959 was approximately $380 billion as against $359 billion in the preceding year. There can be little doubt that personal income will increase again in 1960.

Employment will grow; and unemployment, now at 3.7 million, will diminish somewhat, and by the end of 1960 it should approach the 3 million figure on a seasonally adjusted basis.

It is clear that wage rates will continue to increase, though perhaps at not quite the same pace as in the last two years. Wage settlements already made, not including steel, indicate that the pattern of increase in a number of industries is going to be at least 3% or 4%. In addition, cost-of-living increases automatically take place under a number of contracts; and furthermore, there are many wage contracts which expire this year.

Also, the number of hours worked weekly may step up a little, particularly in the first half of 1960, and there may be more overtime.

Of course, with wage negotiation coming up in railroads, aircraft, missiles, electrical, and communication industries, labor strife may well continue in 1960, especially if management continues to press for increased productivity and reduction of featherbedding, a probability which is decreased somewhat by the steel strike settlement. At present it seems unlikely that as many hours will be lost this year because of strikes as in 1959.

Farm income, down in 1959, will again drop off in 1960, perhaps on the order of 6% to 8%, primarily because of lower prices at the farm.

The categories of income of nonfarm proprietors and income from dividends and interest all will manifest some advance in 1960.

The net of these several factors seems to add up to an increase in personal income of some 5% in 1960, bringing the total to a round figure of $400 billion.

(2) No change in Federal tax rates is in prospect for 1960. Even though it is an election year, any expectation of tax reduction is unrealistic. Hence disposable income will keep pace with the rise in personal income, moving up from about $332 billion in 1959 to a figure close to $350 billion for 1960.

(3) Next comes the question of how much consumers will save out of their incomes in 1960. For 1958, savings were $23.5 billion; and probably the total for 1959 is a bit less than that, perhaps close to $23 billion. There is little likelihood of substantial change in this figure for 1960. Savings of between $23 billion and $24 billion would be a little below 7% of disposable income. The rate might run a little lower during the first half year and a little higher during the second half year, depending on the course of consumer credit.

(4) This brings us to one of the significant questionmarks with respect to 1960. The total volume of consumer credit outstanding is now past the figure of $50 billion, a rise from $17 billion in 1949. Since December 1958 there has been an advance of nearly $5 billion. With heavy automobile buying in the first half of 1960, a further rise in the volume of consumer credit outstanding is obviously in prospect. It may be noted that repayments of consumer credit are now running close to 13% of disposable income, only a little short of the high rate of 13.2% in the fourth quarter of 1957, when personal income turned down while customers were still paying for 1955 automobiles. Another way of looking at consumer credit is to note that currently the excess of credit extension over repayments is about 1.8%. Arthur Rosenbaum of Sears, Roebuck & Co. has observed that when this figure rises into the 2% or 2½% zone a downturn in credit buying may be expected. Thus if the volume of consumer credit rises substantially during the first half of 1960, some tapering off might logically be expected in the second half. For the present, it seems highly unlikely that there will be any imposition of government controls on consumer credit.

(5) Clearly the funds available for consumer buying in 1960 are going to be in ample supply; but we know from experience that consumer purchasing power does not automatically translate itself into expenditures, particularly for certain types of consumer goods. How about consumer attitude toward spending in 1960? The well-known studies conducted by the University of Michigan Survey Research Center have recently shown a substantially more favorable attitude toward spending than was the case a year earlier. Consumers seem to be facing the future with more confidence and hence greater willingness to undertake the purchase of big-ticket items.

Now in the light of consumer ability to spend and consumer willingness to spend let us try to summarize the outlook for the three broad categories of consumer goods, namely durable goods, nondurable goods, and services. From the standpoint of business forecasting, of course, the most important though not the largest of these categories is consumer durables.

### Outlook for Consumer Goods

(1) The purchase of durable goods is postponable, and experience indicates that it is definitely sensitive to business ups and downs. This is particularly true of the automobile sector of durable goods demand. For the year just closed, sales of automobiles were approximately 6.1 million, including imports running to almost 10% of the total. Predictions of the industry point to sales of approximately 7 million cars in 1960. Such a figure would be roughly 10% above a normal based on population and purchasing power factors, but it is to be remembered that automobile purchases in 1958 were some 25% below normal. Sales of 7 million cars, however, would call for substantial growth in consumer credit, which, as previously noted, is already at a very high level. Hence a figure slightly under 7 million, perhaps in a range from 6.6 to 6.8 million (envisaging a drop of perhaps 100,000 in imported cars) seems reasonable. The big increase in automobile sales, of course, will be in the first half of the year.

Other consumer durable goods characteristically display less volatility than do automobiles. For 1960, appliances may show relatively little gain, partly because of the reduction in home building. In total, durable goods spending, approximately $43 billion in 1959, should rise at least to $46 or $47 billion in 1960.

(2) Sales of consumer nondurable goods follow disposable income quite closely. This sector of the economy has been exhibiting about a 4% increase annually in recent years, depending to some extent on price movements. The total figure of $147 billion in 1959 quite possibly will rise to $153 billion in 1960. The food sector, which makes up a large part of the nondurable category, will probably not advance much over 2% or 2½%, reflecting the effect of lower prices. Expenditures for gas and oil, on the other hand, may be expected to rise by a greater percentage, primarily because of the increase in gasoline taxes. Apparel and shoes in 1960 will be aided somewhat by higher prices, perhaps to the extent of 1½% to 2%. Hence this classification should show a rise of at least 5% of sales if not more. A favorable circumstance here, of course, is the rapid growth that is now beginning in the teenage market.

(3) The increase in consumer spending for services continued to be sharply evident in 1959, with a rise to approximately $121 billion. In recent years this sector of consumer spending has moved steadily up with no visible interruption even during periods of business recession. Part of the rise in expenditures for services reflects an increase in costs, as for instance the cost of education and the costs associated with health and medical care. The cost and price advances affecting this segment of consumer spending have contributed significantly to the rise in the cost of living index during recent years. For 1960 a further advance in spending for services may be anticipated, probably on the order of 6%, bringing the total to $128 billion.

Our forecasts for the three major segments of consumer spending — $47 billion for consumer durable goods, $153 billion for nondurables, and $128 billion for services — thus make up a total of $328 billion, a moderately conservative forecast, as against the 1959 total of $311 billion.

This forecast of consumer spending envisages some upward shift in the consumer price index in total, notwithstanding the prospect of lower food prices. The most recent figure for the consumer price index was 125.6 (in November) on the basis of 1947-1949 as 100. By a year from now it is probable that this index will have crept up to 127 or a little higher.

Consumer spending thus is the major constituent of our economic structure. As I suggested at the beginning of this paper, we live in a "consumeristic" economy.

### F. Foreign Trade

There is one more economic sector to examine, namely, foreign trade. In 1959 the nation's export surplus dropped to $1.3 billion as against the $3.5 billion of the preceding year, and the deficit on total balance of international payments as of the end of 1959 is probably something like $3.6 billion. This situation, which has aroused so much discussion and indeed apprehension in recent months, probably will ameliorate somewhat in 1960. Exports are expected to increase, and the net export balance should contribute roughly $1 billion to the Gross National Product. In the meantime, although the deficit on total balance of payments will drop considerably, it will by no means disappear. The basic problem still remains.

## IV

How does all this add up? What is the balance of these prospective changes in the various flows of spending? Definitely on the plus side are consumer spending, business spending for inventories, and business spending for plant and equipment. The other segments of the spending flow will be mostly neutral, with only a small plus in government spending (in the state and local categories), a still smaller plus from foreign trade, and just possibly a small minus from construction. The significant fact is that no major minus signs can be hung on any of the major flows of spending for 1960. The arithmetic thus says that the total Gross National Product for 1960 should reach a figure of $508 to $510 billion. It will almost certainly reach the

$500 billion level in the first or second quarter of the year. Possibly the highest point of the year may be in the third quarter. Much depends on what happens to prices. There are reasons for thinking that the relative price stability which characterized 1959 may not continue throughout 1960. Renewed inflationary pressures might push the Gross National Product figures higher than those I am suggesting, and then there is a pertinent query as to when the reaction would begin. A plausible hypothesis might envisage a boom running all through 1960 and well into 1961 before reaction is encountered. On the other hand, it can be reasoned that by the fourth quarter of 1960 the business recovery which began in May 1958 will be approximately 30 months old; and historically 27 to 30 months is about the duration of such recovery movements. By that time some of the clouds that can now be discerned on the horizon may be casting longer shadows.

V

**Some Somber Hues in the Outlook**

There are three closely interrelated situations in our economy which are giving an increasingly somber hue to the outlook for the early years of the 1960s. First, there is the continuing contest between the forces of inflation and the potential forces of deflation. A few months ago I entertained the hopeful idea that perhaps the corner had been turned and that inflationary forces were in retreat. Seemingly the Administration's policy of balancing the budget, together with the policy of the Federal Reserve banks in stiffening interest rates, had the backing of both business and public opinion. The stand of management in the steel strike certainly pointed in this direction, and further support for this view was afforded by the general swing to conservative fiscal policies in much of the Western World. For these various reasons the conclusion that inflation had come to an end began to attract support.

I am now shaken in this point of view and inclined to regard it as wishful thinking. It now seems clear that the government has maneuvered a settlement of the steel trike that is inflationary in its implications. Within a few months there will be higher steel prices; and there is now an increased likelihood that the process of inventory rebuilding in the coming months will generate renewed inflationary pressures. In the meantime the speculative boom continues in the stock market and in real estate.

How much farther can all this go? We have seen, and shall continue to see, grave government financing problems. We had tight money throughout most of 1959, and if we add up the credit necessary to sustain all the forecasts we have made for 1960—the inventory buildup, the higher consumer credit for the purchase of automobiles, the increased borrowing of state and local governments, and the needs of business for expansion of plant and equipment—we can readily apprehend that money will get even tighter; and historically we know that sooner or later a prolonged period of tight money has always led to substantial business readjustments.

A second interrelated situation that has become increasingly acute in the last two years is the extent to which our international accounts are unbalanced, the resulting drain on our gold supply, and the difficulty of redressing our export balance because cost inflation is pricing us out of the world markets as well as subjecting domestic industry to increasing inroads from foreign competition. Although this situation will be eased somewhat in 1960, the basic problems still remain. Some astute foreign observers believe that ultimately the United States will be faced with the dilemma of either deflating costs and prices or of devaluing the currency. So far there is little indication of willingness to accept the cost deflation alternative.

The third interrelated aspect of the situation is the struggle between big labor, strongly entrenched in a monopolistic position by reason of the political trends in the last 30 years, and big management, until recently at least too slow and too timid in exerting its proper prerogatives. This is a struggle which will not be resolved easily. Will it require the existence of severe unemployment before labor leadership is willing to play a constructive part in our total economy in relation to the world situation? Experience with the steel strike indicates that, whenever management takes a strong stand (and is not coerced by government), substantial labor strife can be expected. This will be the case until public opinion forces controls on the monopoly power of labor broadly parallel to those that have long since been imposed on management. Also it is increasingly to be apprehended that the contest between big labor and big management may lead to a degree of government control that will have severe repercussions on the willingness of private enterprise to carry the ball.

These interrelated sets of problems—inflation-deflation, the balance of international accounts, and labor-management strife—present issues that will have to be faced in the 1960's, quite possibly in the early years of the 1960s. A significant question for the business forecaster today is whether just possibly late this year or perhaps sometime next year we may be faced with a downturn of the more or less normal inventory cycle, that is, a downturn such as 1948-1949, 1953-1954, and 1957-1958, and simultaneously have to cope with a downturn in the much longer and only vaguely apprehended cycle which embraces the kinds of problems which I have just enumerated. The depression resulting from such a coincidental downturn might well be the one that George Humphreys said would "really curl your hair." Please understand that I am not predicting this, but I might be willing to give odds that the next business readjustment in the United States will be more severe than any of the preceding ones in the postwar period. Also I do not think we should forget that the development of a really severe business readjustment in this country is most likely to be the time when Mr. Khrushchev will make his move.

We should remember, furthermore, that the big downturns are almost never foreseen and are frequently preceded by new era philosophizing which assures us that "this time things really are different." Short-term cycles, such as those we have experienced since the end of the war, because of their frequency are relatively easily foreseen; we get to learn the signs. But the big and less frequent downturns seem always to wear a new guise; and, more important, a majority of the current generation of business managers and investors at any given time have had no personal experience with the big downturns.

I submit that these are things to think about. Just because Sewell Avery almost wrecked a big company by foolishly taking to the storm cellar at least a dozen years too soon, there is no reason for corporate management today not to include as part of its long-range outlook a sober assessment of the possibility of a really severe business setback somewhere in the early 1960s.

VI

**Outlook for Department Stores**

I now turn to the outlook for the department store business during the spring season of this year 1960. Although I have indicated some guesses as to the course of general business for the year as a whole, I prefer to confine my comments on department stores to the next six months. What results shall we expect this industry to produce for this coming spring season?

(A) **Sales**

The big bulge in business activity in the first six months will generate increased disposable income, and sales of non-durables will follow disposable income quite closely. Prospective large automobile purchases may have a slightly adverse effect on some other sectors of retail spending, and the expected decline of perhaps 15% in private housing may affect home goods to some degree. On the other hand, lower food prices may permit some diversion of spending from that area. In the meantime the rising trend in apparel sales, supported by considerable price strength, bids fair to continue. Consumer willingness to buy is favorable, and interest in better-quality merchandise seems to be spreading. A minor factor, usually considered encouraging to sales, is the considerably later date of Easter in 1960. Therefore, even though comparisons will be made against the strong increases registered in the spring of 1959, I should expect department store sales for the spring season of 1960 to advance by 5%. I think this is a moderately conservative figure, probably not so conservatively as my estimate a year ago.

(B) **Gross Margin**

The gross margin performance should be slightlly better. The merchandise mix will be favorable. Markon may edge up a little, with firm prices and with the growing realization that under existing wage economics certain types of retail operation require wider spreads. Consumer interest in better merchandise also points the same way. With slightly rising prices markdowns perhaps will be a little lower, but soft goods inventories should be watched closely as the season progresses. Shortages, as for several past years, will continue to present a serious problem. Altogether, the net result should be a slightly higher gross margin percentage.

(C) **Expense**

As in several years past, the cost squeeze will still be operative. Wage rates will continue to advance. Even if the minimum wage coverage is not extended to the department store business, the discussion of such extended coverage as well as of a possible boost in the minimum rate, both definite possibilities in this election year, will generate an atmosphere conducive to wage rises and expansion of fringe benefits. And, as usual, productivity improvement will lag behind wage advances. Hence the cost squeeze. Cognizance should be taken also of the higher Social Security taxes as well as of the continued trend to higher real estate taxes. Although larger sales volume should be conducive to improvement in expense ratios, these effects are likely to be minor. With rising sales volume a very substantial part of department store expense seems to be variable. Gradually better control and improved philosophies of expense management are making headway, but the process is slow. Hence the best that can be hoped for in this spring season probably is a total expense rate no higher than last year, and the most plausible expectation is a small advance.

(D) **Earnings**

There should be a small improvement in the percentage of earnings to sales. In other words, the gross margin rate should increase slightly more than the expense rate. With more dollars of sales volume, department store dollar earnings should score an advance in the spring season of 1960 as compared with 1959. But this will be not nearly so marked an advance as that which the spring of 1959 registered over 1958. Earnings in relation to capital invested in the department store industry as a whole will remain rather mediocre, although there will be individual brilliant exceptions to the general trend. Try to make your business one of those.

*An address by Professor McNair before the National Retail Marketing Association Convention, New York City, Jan. 11, 1960.

# Outlook for Interest Rates And the Capital Markets

*Continued from page 9*

and mortgage debt. As a result, "Keeping up with the Jones" is once more a problem, and it is more difficult to save.

(4) Competition among thrift institutions will continue to grow causing them to pay still higher rates of interest to attract savers. This will, of course, increase the return they will have to get on their investments as their costs are also going up.

(5) Investment funds of insurance companies and pension trusts will continue to increase, but under inflationary conditions, a growing proportion will go into equities and assets with some equity provision, such as stock warrants, stock options, etc. And finally,

(6) In the more immediate future, it is to be hoped that the Congress will stop playing politics with the 4¼% interest limitation on the longer obligations of the Treasury and again permit such financing in the capital market. This will further increase the demand for long-term funds.

From the foregoing, it seems clear that discounts and higher mortgage rates will push up housing costs all through 1960. Adding to these, the greatly increased land costs, the higher tax costs and the higher wage costs, the financing needs of the building industry will be a real problem in the months ahead.

**Some Observations on Inflation**

In view of the importance of inflation and its impact on long-term interest rates a few observations may be in order.

(1) The Congress should realize, as Dr. E. Sherman Adams, head of the American Banker's Association has so frequently pointed out, that the psychological impact of "pre-mediated inflation" will be quite different and more serious than the inevitable wartime inflation, which people have learned to take more or less for granted.

(2) The Congress should realize that sound money, full employment and **ever-increasing wages regardless of productivity** cannot all be realized at the same time. A choice must be made—it cannot be escaped.

(3) The Congress should realize that wage increases in a particular industry cannot properly be based on increased productivity in that industry alone. Other industries must also increase wages—regardless of their productivity increase—or their workers will be lured away by the higher rates.

(4) The Congress should realize that the widespread view that inflation is inevitable is based on cost-push considerations. We are able to do a great deal about controlling the demand-pull factors but a new approach to the cost-push factors is badly needed.

(5) And everyone should realize that the great war-born supply of loanable and investable funds has been used up. This means that future financing can only safely be done the hard way of thrift, saving and sacrifice—not the easy inflationary way of credit expansion. In short, financing will be a continuing problem.

**Conclusions**

My conclusions for 1960 are very short. They are:

(1) Higher rates in the money market,

(2) Higher rates in the capital market, and that

(3) Only a consequential break in the stock market or in business activity could materially reduce interest rates.

*An address by Professor Rodgers before the Fifth Annual Senior Executives Conference, co-sponsored by the Mortgage Bankers Association of America and the School of Business Administration of Southern Methodist University, Dallas, Texas, Jan. 25, 1960.

# C. E. Unterberg, Towbin Sells Data-Control Com.

C. E. Unterberg, Towbin Co. offered 75,000 shares of Data-Control Systems, Inc. common stock at a price of $10 per share on Jan. 27. The offering, marking the first public sale of the common stock, was oversubscribed and the stock was selling at a premium.

Net proceeds from the sale will be applied by the company in reducing the outstanding amount of its bank borrowings.

Data-Control Systems, Inc., with its plant in Danbury, Conn., designs, produces and sells telemetry systems and related components, with virtually all of its products at the present time sold directly or indirectly to the government. Telemetry is that area of the field of instrumentation dealing with the transmission of measurement data from a remote location to a more convenient location and the reproduction of these data in a form suitable for display, recording or insertion into data-reducing equipment.

Upon completion of the current financing, outstanding capital stock of the company will consist of 325,000 shares of common stock.

# R. A. Holman Sells Red Fish Boat Stk.

Pursuant to an offering circular dated Dec. 22, R. A. Holman & Co., Inc., of 54 Wall Street, offered and sold 400,000 shares of the class A stock of Red Fish Boat Co. at 75c per share. The proceeds were to be utilized for general corporate purposes, including the discharge of indebtedness and expansion. The company, a maker and seller of fiberglass boats, is located in Clarksville, Texas.

The Holman organization, well-known as an underwriter of marine issues, recently had a booth at the New York Boat Show. It has successfully completed several other marine issues, and is expected to offer a new one shortly.

## Grimm Opens Branch

LAKELAND, Fla.—Grimm & Co. has opened a branch office at 215 East Lemon Street under the direction of Flenn T. Allen, Jr.

# Securities Now in Registration

★ INDICATES ADDITIONS SINCE PREVIOUS ISSUE
● ITEMS REVISED

**● Aaronson Bros. Stores Corp. (2/3)**
Dec. 29 filed 40,000 shares of 70 cent cumulative preferred stock (par $2.50). **Price** — To be supplied by amendment. **Proceeds**—To pay for opening, equipping and stocking three new stores in El Paso, San Luis, Ariz., and San Diego, Calif. The balance of the proceeds will be added to the company's general funds and used primarily to open, equip and stock additional stores that may be opened in the future. **Office**—526 East Overland Avenue, El Paso, Texas. **Underwriters**—Eppler, Guerin & Turner, Inc., Dallas, Texas, and Harold S. Stewart & Co., El Paso, Texas.

**● Accurate Electronics, Inc. (2/11)**
Dec. 16 (letter of notification) 150,000 shares of common stock (par 25 cents). **Price**—$1.50 per share. **Proceeds**—For research and development, advertising and for working capital. **Office**—13215 Leadwell Street, N. Hollywood, Calif. **Underwriters** — Amos Treat & Co., Inc., New York and Arthur B. Hogan, Inc., Los Angeles, Calif.

**● Aetna Finance Co. (2/4)**
Dec. 22 filed $5,000,000 convertible subordinated debentures, due Feb. 1, 1975, and 200,000 shares of common stock (par $1), of which 75,000 shares of the common are to be offered for the account of a selling stockholder and the rest of the offering is to be made on behalf of the issuing company. **Prices**—For the debentures, at 100% plus accrued interest from Feb. 1, 1960; for the stock, to be supplied by amendment. **Proceeds**—For general corporate purposes, including the reduction of indebtedness. **Office**—Clayton, Mo. **Underwriters** — Scherck, Richter Co., and Dempsey-Tegeler & Co., both of St. Louis, Mo.

**Aircraft Dynamics International Corp. (2/15)**
Sept. 25 (letter of notification) 100,000 shares of common stock (par 10 cents). **Price**—$3 per share. **Proceeds**—For general corporate purposes. **Office**—229 S. State Street, Dover, Del. **Underwriter**—Aviation Investors of America, Inc., 666 Fifth Avenue, New York 19, N. Y.

**★ Agricultural Research Development, Inc.**
Jan. 25 filed 200,000 shares of common stock. **Price**—$5 per share. **Proceeds** — To purchase land, to construct buildings, and provide necessary equipment and capital to engage in a hog raising enterprise. **Office**—Wiggins, Colo. **Underwriter**—W. Edward Tague Co., Pittsburgh, Pa.

**Alaska Consolidated Oil Co., Inc.**
Sept. 17 filed 3,000,000 shares of common stock (par five cents). **Price**—$2.50 per share. **Proceeds**—For further development and exploration of the oil and gas potential of the company's Alaska properties. **Office**—80 Wall Street, New York. **Underwriter**—C. B. Whitaker, A. J. Zappa & Co., Inc., New York. **Offering**—Expected in January.

**Allegheny Airlines, Inc. (2/4)**
Dec. 31 filed $5,500,000 of convertible subordinated debentures, due Feb. 1, 1975. **Price**—To be supplied by amendment. **Proceeds**—To buy planes and engines, reduce indebtedness, and add to working capital. **Office**—Washington National Airport, Washington, D. C. **Underwriters**—Auchincloss, Parker & Redpath of Washington, and Allen & Co. and Lee Higginson Corp., both of New York City.

**● Allied Bowling Centers, Inc. (2/8)**
Dec. 29 filed $750,000 of sinking fund debentures and 300,000 shares of capital stock, to be offered in units of $75 principal amount of debentures and 30 shares of stock. **Price**—$108 per unit. **Proceeds**—For general corporate purposes. **Office**—Arlington, Texas. **Underwriter**—Rauscher, Pierce & Co., Inc., Dallas.

**Allied Small Business Investment Corp.**
Sept. 29 filed 100,000 shares of common stock (par $8). **Price**—$11 per share. **Proceeds**—To be used to provide equity capital and long-term loans to small business concerns. **Office**—Washington, D. C. **Underwriter**—NASD members who execute a selling agreement. **Offering**—Expected in January.

**American Frontier Life Insurance Co.**
Nov. 30 filed 200,000 shares of capital stock. **Price**—$8 per share. **Proceeds** — To increase capital and surplus. **Office**—1455 Union Ave., Memphis, Tenn. **Underwriter**—Union Securities Investment Co., also of Memphis, which will receive a selling commission of $1.20 per share.

**American Gypsum Co. (2/1-5)**
Dec. 4 filed 480,000 shares of common stock and $1,200,000 of 7% first mortgage notes, due Dec. 1, 1969, to be offered in units consisting of $100 principal amount of notes and 40 shares of stock. The common stock will be separately transferable only on and after July 1, 1960 unless an earlier date is fixed by the Board of Directors of the company. **Price**—$300 per unit. **Proceeds**—For general corporate purposes, including construction equipment, and working capital. **Office**—323 Third Street, S. W., Albuquerque, N. Mex. **Underwriters**—Jack M. Bass & Co., Nashville, Tenn., and Quinn & Co., Albuquerque.

**American Industries Life Insurance Co.**
Dec. 18 filed 316,667 shares of class A common and 50,000 shares of class B common, of which 50,000 shares of the class A and all (50,000) of the class B have been subscribed to by Foundation Life Insurance Co., and 16,667 shares of the class A are reserved for issuance upon the exercise of an option granted an agency director. **Price**—$4.50 per share (for the 250,000 shares to be publicly offered). **Proceeds**—For capital and surplus of the 13-month-old company. **Office**—Title & Trust Bldg., Phoenix, Arizona. **Underwriter**—None.

**American Land Co.**
Dec. 14 filed 300,000 shares of class A preference stock ($15 par) and 300,000 shares of common stock, to be offered in units of one share of preference and one share of common. **Price**—To be supplied by amendment. **Proceeds**—For property acquisition and development. **Office**—49 E. 53rd Street, New York City. **Underwriter**—Hemphill, Noyes & Co. **Offering**—Expected in February.

**★ American-Marietta Co.**
Jan. 25 filed 1,882,718 shares of common stock. **Price**—To be suplied by amendment. **Proceeds**—For acquisition of additional businesses and for general corporate purposes. **Office**—101 E. Ontario Street, Chicago, Ill. **Underwriter**—None.

**American Service Life Insurance Co.**
Sept. 14 filed 300,000 shares of common stock (par 40¢). **Price**—$3.50 per share. **Proceeds**—For general corporate purposes, including, possibly, the acquisition of similarly engaged companies. **Office** — 113 Northeast 23rd Street, Oklahoma City, Okla. **Underwriter** — First Investment Planning Co., Washington, D. C.

**★ Amplex Manufacturing Co.**
Jan. 15 (letter of notification) $200,000 of 8% cumulative subordinated debentures due Dec. 1, 1974. **Price**—At face amount. **Proceeds**—For working capital. **Office**—2325-31 Fairmont Avenue, Philadelphia 30, Pa. **Underwriter**—None.

**Anadite, Inc.**
Jan. 18 filed 50,000 shares of capital stock. **Price**—To be supplied by amendment. **Proceeds**—To buy plant and property, repay bank indebtedness, and add to working capital. **Office**—10630 Sessler Street, South Gate, Calif. **Underwriter**—Dean Witter & Co., San Francisco, Calif.

**Arcoa, Inc.**
Dec. 28 filed $6,000,000 of U-Haul Fleet Owner Contracts and $3,000,000 of Kar-Go Fleet Owner Contracts. The contracts provide for the operation of fleets of automobile-type rental trailers in the U-Haul Trailer Rental System or the Kar-Go Trailer Rental System. **Office**—4707 S. E. Hawthorne Boulevard, Portland, Ore. SEC clearance is expected about March 1.

**★ Arden Farms Co.**
Jan. 8 (letter of notification) 5,357 shares of preferred stock (no par). **Price**—$56 per share. **Proceeds**—For working capital. **Office**—1900 W. Slauson Avenue, Los Angeles 47, Calif. **Underwriter**—None.

**Associations Investment Fund**
Aug. 28 filed 400,000 shares of common stock. **Price**—To be supplied by amendment. **Proceeds**—For investment in common stocks. **Office**—301 W. 11th Street Kansas City, Mo. **Underwriter**—Jones Plans, Inc., a subsidiary of R. B. Jones & Sons, Inc.

**● Automatic Retailers of America, Inc. (2/1)**
Dec. 15 filed 120,000 shares of common stock. **Price**—To be supplied by amendment. **Proceeds** — To pay bank loan, with the balance to general funds for expansion and acquisitions. **Office** — Los Angeles, Calif. **Underwriters** — White, Weld & Co., New York City, and Cruttenden, Podesta & Co., of Chicago.

**★ Baltimore Paint & Chemical Corp.**
Jan. 22 filed (a) $750,000 of sinking fund debentures, 6½ series, due 1975 with eight-year warrants for the purchase of 22,500 common shares at the rate of 30 shares for each $1,000 of debentures; (b) 90,000 shares of 6½% cumulative convertible first preferred stock; and (c) $750,000 of 6¼% first mortgage bonds, due 1972, sold to New York Life Insurance Co., along with 12-year warrants granted said insurance company to purchase 15,000 shares of the issuer's common at a price to be specified. **Prices**—For the debentures, at par; for the preferred, $20 per share. **Proceeds**—For general corporate purposes including repayment of loan, purchase of land, construction, purchase of machinery and equipment, and for working capital. **Office**—2325 Annapolis Avenue, Baltimore, Md. **Underwriter**—P. W. Brooks & Co., New York City.

**● Bankers Management Corp.**
Sept. 10 (letter of notification) 300,000 shares of common stock (par 25 cents). **Price**—$1 per share. **Proceeds**—For working capital. **Office**—1404 Main Street, Houston 2, Texas. **Underwriter**—Daggett Securities, Inc., Newark N. J. **Offering**—Postponed to change in structure of issuer.

**Bargain Centers, Inc.**
Dec. 2 (letter of notification) 120,000 shares of common stock (par $10 cents). **Price**—$2.50 per share. **Proceeds**—To remodel store and offices in warehouse, opening a new store and for working capital. **Office**—31-37 Fayette Street, Martinsville, Va. **Underwriters**—Frank P. Hunt & Co., Inc., Rochester, N. Y., and First City Securities, Inc., New York, N. Y.

**★ Basic, Inc.**
Jan. 11 (letter of notification) 2,173 shares of common stock (par $1) not to exceed $50,000 to be offered to the company's salaried employees pursuant to the employees' consolidated profit-sharing and retirement plan. **Price**—At-the-market. **Proceeds**—To purchase stock. **Office**—845 Hanna Building, Cleveland 15, Ohio. **Underwriter**—None.

**● Bastian-Morley Co., Inc.**
Jan. 18 filed $650,000 of convertible first mortgage sinking fund bonds. **Price**—At 100% of principal amount. **Proceeds**—To buy about 50.6% (67,808 shares) of its outstanding common from the family of one of its founders, the late James P. Morley. This will cost $542,466. The remainder of the proceeds will be applied to the retirement of the issuer's junior convertible 5% debentures. **Office**—200 Truesdell Avenue, LaPorte, Ind. **Underwriter** — City Securities Corp., Indianapolis 4, Ind. **Trustee & Registrar**—American Fletcher National Bank & Trust Co.

**● Big "C" Stores, Inc. (2/1)**
Dec. 23 filed 250,000 shares of common stock, of which 125,000 shares are to be offered for the company's account and the remaining 125,000 will be sold for the account of certain selling stockholders. **Price**—To be supplied by amendment. **Proceeds**—For repayment of certain outstanding notes; for payment of fixtures and equipment for new supermarkets; and the balance for general corporate purposes. **Office** — 1845 S. E. Third Ave., Portland, Ore. **Underwriters**—J. Barth & Co., and The First California Co. Inc., both of San Francisco, Calif.; and Hill, Darlington & Co., New York.

**Boothe Leasing Corp.**
Dec. 2 filed 40,296 shares of common stock (no par) being offered to holders of outstanding common stock on basis of one new share for each eight shares held of record Jan. 12; rights expire Jan. 29. **Price** — $24 per share. **Proceeds**—For general corporate purposes, including the acquisition of additional equipment which the company intends to lease to various businesses. **Office** — 315 Montgomery Street, San Francisco, Calif. **Underwriters**—Wertheim & Co., New York City, and J. Barth & Co., San Francisco.

**Border Steel Rolling Mills, Inc.**
Sept. 14 filed $2,100,000 of 15-year 6% subordinated sinking fund debentures, due Oct. 1, 1974, and 210,000 shares of common stock ($2.50 par), to be offered in units of $50 principal amount of debentures and five shares of common stock. **Price** — To be supplied by amendment. **Proceeds**—For the purchase of land and construction thereon, and for the manufacture and installation of necessary equipment. **Office**—1609 Texas Street, El Paso, Texas. **Underwriters**—First Southwest Co., Dallas, Texas, and Harold S. Stewart & Co., El Paso, Texas.

**Border Steel Rolling Mills, Inc.**
Sept. 14 filed 226,380 shares of common stock, to be offered for subscription to stockholders of record Aug. 31, 1959, on the basis of 49 new shares for each share then held. **Price**—To be supplied by amendment. **Proceeds**—For general corporate purposes. **Office** — 1609 Texas Street, El Paso, Texas. **Underwriter**—None.

**★ Bowman Co.**
Jan. 27 filed 290,000 shares of common stock. **Price**—To be supplied by amendment. **Proceeds**—To selling stockholders. **Office**—Cleveland, O. **Underwriter**—Wertheim & Co., New York City.

**★ Britton Electronics Corp.**
Jan. 19 (letter of notification) 225,000 shares of common stock (par one cent). **Price**—$1 per share. **Proceeds**—For general corporate purposes. **Office**—213-20 99th Ave., Queens Village 99, N. Y. **Underwriter**—First Philadelphia Corp., New York, N. Y.

**★ Brooklyn Union Gas Co. (2/24)**
Jan. 25 filed 150,000 shares of cumulative preferred stock, series A (par $100). **Price**—To be supplied by amendment. **Proceeds**—For repayment of bank loans outstanding at Jan. 1, 1960. **Office**—176 Remsen Street, Brooklyn, N. Y. **Underwriters**—Blyth & Co., Inc. and Eastman Dillon, Union Securities & Co., New York, N. Y.

**California Mutual Co-Ply, Inc.**
Sept. 14 filed 140 shares of voting common stock. **Price**—At par ($5,000 per share). **Proceeds**—To purchase the mill and related facilities of Durable Plywood Co. for $690,000, with the balance to be used for working capital. **Office**—Calpella, Calif. **Underwriter**—The offering is to be made by Ramond Benjamin Robbins, one of the nine promoters, the list of which also includes Harry Ernest Holt, of Eureka, Calif., President of the company.

**California Water & Telephone Co. (2/9)**
Jan. 8 filed 210,000 shares of common stock, of which 200,000 shares are to be offered to the public and 10,000 shares are to be offered to employees of the issuer. **Price**—To be supplied by amendment. **Proceeds**—To be applied to 1960 construction expenditures, which are estimated at $13,387,000. **Office**—300 Montgomery Street, San Francisco, Calif. **Underwriter**—Blyth & Co., Inc., Russ Building, San Francisco 4, and New York City.

**Can-Fer Mines Ltd.**
Dec. 22 filed 300,000 shares of capital stock. **Price**—To be supplied by amendment. **Proceeds**—For exploration and development of mining claims. **Office**—Toronto, Canada. **Underwriters**—Pearson, Murphy & Co., Inc. and Emanuel, Deetjen & Co., both of New York City, on a "best efforts" basis. **Offering**—Expected in February.

**★ Capital Airlines, Inc.**
Jan. 26 filed 909,659 shares of common stock on the basis of one additional share for each share held. **Proceeds**—To broaden equity base. **Office**—Washington National Airport, Washington 1, D. C. **Underwriters** — Lehman Brothers and Smith, Barney & Co., New York, N. Y.

**★ Captains Club, Inc.**
Jan. 22 filed 500,000 shares of common stock. **Price**—$2 per share. **Proceeds**—For retirement of $52,860 of 6% notes and the balance for operating funds and working capital. **Office**—381 Fifth Avenue, New York City. **Underwriters**—G. Everett Parks & Co., Inc., and Sulco Securities, Inc., both of 52 Broadway, New York City.

**Cardinal Petroleum Co.**
Nov. 30 filed 200,000 shares of common capital stock. **Price**—$4 per share. **Proceeds**—For general corporate purposes including debt reduction, drilling and working capital. **Office**—420 No. 4th St., Bismarck, North Dakota. **Underwriter**—J. M. Dain & Co., Inc., Minneapolis, Minn. **Offering**—Indefinite.

**● Carolina Natural Gas Corp. (2/15-19)**
Dec. 30 filed 120,000 shares of common stock. **Price**—To be supplied by amendment. **Proceeds**—For debt reduction, construction, and working capital. **Office**—256 First Avenue N. W., Hickory, N. C. **Underwriters**—Cruttenden, Podesta & Co., Chicago, and Odess-Martin, Inc., Birmingham, Ala.

**★ Cars Rental System, Inc.**
Jan. 14 (letter of notification) 100,000 shares of common stock (par $1). **Price**—$3 per share. **Proceeds**—For working capital. **Office**—938 Sunrise Lane, Fort Lauderdale, Fla. **Underwriter**—Jerry Thomas & Co., Inc., Palm Beach, Fla.

**● Cascade Pools Corp. (2/15)**
Nov. 30 (letter of notification) 100,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—For general corporate purposes. **Office**—River & Wood Sts., Butler, N. J. **Underwriter**—R. A. Holman & Co., Inc., New York, N. Y. **Offering**—Expected in February.

**★ Century Properties**
Jan. 25 filed 150,000 shares of common stock. **Price**—To be supplied by amendment. **Proceeds**—For repayment of unsecured bank loans; for payment of the balance of a down payment on the purchase price of property in Ventura, Calif.; to pay the balance of construction costs on a building in Torrance, Calif. and for working capital. **Office**—1738 S. La Cienga Boulevard, Los Angeles, Calif. **Underwriter**—Daniel Reeves & Co., Beverly Hills, Calif.

**★ Certified Credit & Thrift Corp.**
Jan. 26 filed 250,000 shares of class A stock ($10 par) and 250,000 shares of class B stock (20c par), to be offered in units of one share of each class of stock. **Price**—$20.20 per unit. **Proceeds**—To pay mortgages. **Office**—Columbus, Ohio. **Underwriter**—Commonwealth Securities Corp., Columbus.

**★ Certified Investment Corp.**
Jan. 26 filed 311,482 shares of class A common stock, to be offered in exchange on a share-for-share basis for the outstanding common stock of Security Savings Life Insurance Co., Montgomery, Ala., pursuant to a reorganization plan dated 10/23/59, such offer to be conditional upon its acceptance by holders of at least half of Security's 233,482 outstanding shares. **Office**—Birmingham, Ala.

**★ Charlotte Motor Speedway, Inc.**
Jan. 21 filed 304,000 shares of common stock, to be offered to common stockholders of record Jan. 1 at the rate of two new shares for each three shares then held. **Price**—$2 per share, initially; after 15 days from the offering date, the underwriter will offer unsubscribed shares to purchasing stockholders for an additional 10 days, after which such shares may be publicly offered. **Proceeds**—For construction of a speedway and its accessories. The issuer expects to stage its first stock car race in May. **Office**—108 Liberty Life Building, Charlotte, N. C. **Underwriter**—Morrison & Co., Charlotte.

**● Citizens Casualty Co. of New York**
Nov. 9 filed 250,000 shares of class A common stock (par $2). **Price**—To be supplied by amendment. **Proceeds**—To be invested in income-producing securities. **Office**—33 Maiden Lane, New York City. **Underwriter**—Lee Higginson Corp. **Offering**—Postponed.

**● Clinton Engines Corp.**
Jan. 11 filed 350,000 shares of common stock. **Price**—To be supplied by amendment. **Proceeds**—To reduce indebtedness. **Office**—250 Park Ave., New York City. **Underwriters** — Bear, Stearns & Co., New York City, and H. M. Byllesby & Co., Inc., Chicago. **Offering**—Expected in late February.

**Coastal Chemical Corp.**
Dec. 7 filed 111,729 shares of class A common and 70,000 shares of class C common, of which 50,000 class C shares are to be offered for the account of Miss. Chemical Corp., selling stockholder, with the remainder of the offering to be sold for the account of the issuing company. **Price**—For the class A stock: $30 per share; for the class C stock: $25 per share. **Proceeds**—For working capital, construction, and repayment of loans. **Office**—Yazoo City, Miss. **Underwriter**—The offering is to be made through Coastal employees with Miss. Chemical underwriting on a "best efforts" basis, receiving a selling commission of 33 cents a share.

**★ Colanco, Inc.**
Jan. 19 (letter of notification) 300,000 shares of preferred (no par), seven cents per share dividend paying after March 1, 1962, non-cumulative, non-voting stock. **Price**—$1 per share. **Proceeds**—To purchase land and for development and working capital. **Office**—3395 S. Bannock Street, Englewood, Colo. **Underwriter**—Diversified Securities, Inc., Englewood, Colo.

**Commerce Drug Co.**
Nov. 30 filed 90,000 shares of common stock. **Price**—$6.50 per share. **Proceeds**—To selling stockholders. **Office**—505 Court St., Brooklyn, N. Y. **Underwriter** — Marron, Sloss & Co., Inc. **Offering**—Expected in February.

**Commerce Oil Refining Corp**
Dec. 16, 1957 filed $25,000,000 of first mortgage bonds due Sept. 1, 1968, $20,000,000 of subordinated debentures due Oct. 1, 1968 and 3,000,000 shares of common stock to be offered in units as follows: $1,000 of bonds and 48 shares of stock and $100 of debentures and nine shares of stock. **Price**—To be supplied by amendment. **Proceeds** — To construct refinery. **Underwriter**—Lehman Brothers, New York. **Offering**—Indefinite.

**● Computer Usage Co., Inc.**
Dec. 29 (letter of notification) 47,000 shares of common stock (par 25 cents). **Price**—$5 per share. **Proceeds**—For general corporate purposes. **Office**—100 W. 10th Street, Wilmington, Del. **Underwriters** — Marron, Sloss & Co., Inc. (handling the books), and Roosevelt & Gourd, New York, N. Y.; L. B. Schwinn & Co.. Cleveland, Ohio; Donaldson, Luskin & Jenrette, Inc., New York, N. Y. and First Albany Corp., Albany, N. Y. **Offering**—Expected next week.

**● Consolidated Development Corp.**
Aug. 28 filed 448,000 shares of common stock (par 20c), of which 1198,000 shares are to be offered to holders of the issuing company's 6% convertible debentures, and 100,000 shares are to be offered to the underwriter, with the remaining 150,000 shares, in addition to those shares described above not subscribed for by the debenture holders and the underwriter, respectively, to be publicly offered. **Price**—For the shares to be offered to the

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# NEW ISSUE CALENDAR

**January 29 (Friday)**
West Florida Natural Gas Co.____Debentures
(White, Weld & Co. & Pierce, Carrison, Wulbern, Inc.) $837,200

**February 1 (Monday)**
American Gypsum Co.____Notes
(Jack M. Bass & Co. and Quinn & Co.) $1,200,000
American Gypsum Co.____Common
(Jack M. Bass & Co and Quinn & Co.) 480,000 shares
Automatic Retailers of America, Inc.____Common
(White, Weld & Co. and Cruttenden, Podesta & Co.) 120,000 shares
Big "C" Stores, Inc.____Common
(J. Barth & Co.; The First California Co., Inc. and Hill, Darlington & Co.) 250,000 shares
Crown Aluminum Industries Corp.____Common
(Adams & Peck) 180,000 shares
Crown Aluminum Industries Corp.____Debentures
(Adams & Peck) $1,500,000
Hebrew National Kosher Foods, Inc.____Common
(Brand, Grumet & Siegel, Inc. and Arnold Malkan & Co., Inc.) $1,400,000
Levitt & Sons, Inc.____Common
(Ira Haupt & Co.) 600,000 shares
North American Investment & Development Corp.____Common
(Howard Coleman Co.) $300,000
Pantasote Co.____Common
(Bear, Stearns & Co.) 350,000 shares
Sta-Brite Fluorescent Mfg. Co.____Common
(Charles Plohn & Co.) $700,000
Telechrome Manufacturing Corp.____Debentures
(Amos Treat & Co., Inc. and Truman, Wasserman & Co., Inc.) $750,000
Vickers-Crow Mines, Inc.____Common
(Sakler & Co., Inc.) $300,000

**February 2 (Tuesday)**
Montreal Metropolitan Corp.____Debentures
(First Boston Corp.) $30,000,000
New Brunswick (Province of)____Debentures
(Halsey, Stuart & Co., Inc.; Kuhn, Loeb & Co. and W. C. Pitfield & Co., Inc.) $15,000,000

**February 3 (Wednesday)**
Aaronson Bros. Stores Corp.____Preferred
(Eppler, Guerin & Turner, Inc. and Harold S. Stewart & Co.) 40,000 shares
Dentists' Supply Co. of New York____Common
(Reynolds & Co., Inc.) 200,000 shares
Finger Lakes Racing Association, Inc.____Debens.
(Stroud & Co., Inc.) $4,500,000
Finger Lakes Racing Association, Inc.____Common
(Stroud & Co., Inc.) 450,000 shares
Hi-Press Air Conditioning Corp. of America____Com.
(Plymouth Securities Corp.) $600,000
(G. B.) Macke Corp.____Common
(Auchincloss, Parker & Redpath) 125,000 shares
Southeastern Public Service Co.____Common
(Offering to stockholders—Bioren & Co.) 104,961 shares
Tampa Electric Co.____Common
(Stone & Webster Securities Corp.) 240,000 shares

**February 4 (Thursday)**
Aetna Finance Co.____Common
(Scherck, Richter Co. and Dempsey-Tegeler & Co.) 200,000 shares
Aetna Finance Co.____Debentures
(Scherck, Richter Co. and Dempsey-Tegeler & Co.) $5,000,000
Allegheny Airlines, Inc.____Debentures
(Auchincloss, Parker & Redpath; Allen & Co. and Lee Higginson Corp.) $5,500,000
Florida West Coast Corp.____Common
(Midtown Securities Corp.) $300,000

**February 5 (Friday)**
South Bay Industries, Inc.____Common
(Amos Treat & Co., Inc.) $1,050,000

**February 8 (Monday)**
Allied Bowling Centers, Inc.____Common
(Rauscher, Pierce & Co., Inc.) 300,000 shares
Allied Bowling Centers, Inc.____Debentures
(Rauscher, Pierce & Co., Inc.) $750,000
Consolidated Natural Gas Co.____Debentures
(Bids to be invited) $25,000,000
Row, Peterson & Co.____Common
(Kidder, Peabody & Co., Inc.) 164,689 shares
Tayco Developments, Inc.____Common
(Offering to stockholders—underwritten by C. E. Stoltz & Co.) $154,962.50
Taylor Devices, Inc.____Common
(Offering to stockholders—underwritten by C. E. Stoltz & Co.) $537,788.75

**February 9 (Tuesday)**
California Water & Telephone Co.____Common
(Blyth & Co., Inc.) 210,000 shares
Texas Electric Service Co.____Debentures
(Bids to be invited) $12,000,000

**February 10 (Wednesday)**
Control Electronics Co., Inc.____Common
(Milton D. Blauner & Co., Inc.; David Finkle & Co. and Gartman, Rose & Feuer) $165,000
Pathe News, Inc.____Common
(Hilton Securities, Inc.) $1,300,000
Soroban Engineering, Inc.____Common
(R. S. Dickson & Co., Inc.) 100,000 shares

**February 11 (Thursday)**
Accurate Electronics, Inc.____Common
(Amos Treat & Co., Inc. and Arthur B. Hogan, Inc.) $225,000

**February 15 (Monday)**
Aircraft Dynamics International Corp.____Common
(Aviation Investors of America, Inc.) $300,000
Carolina Natural Gas Corp.____Common
(Cruttenden, Podesta & Co. and Odess-Martin, Inc.) 120,000 shs.
Cascade Pools Corp.____Common
(R. A. Holman & Co., Inc.) $100,000
General Aluminum Fabricators, Inc.____Common
(Charles Plohn & Co.) $300,000
Puget Park Corp.____Common
(Hill, Darlington & Co.) $816,725
Universal Transistor Products Corp.____Common
(Michael G. Kletz & Co., Inc. and Amos Treat & Co., Inc.) $300,000

**February 16 (Tuesday)**
Pacific Telephone & Telegraph Co.____Common
(No underwriting) $143,509,000
Pacific Telephone & Telegraph Co.____Debentures
(Bids to be invited) $72,000,000
Tennessee Gas Transmission Co.____Common
(Stone & Webster Securities Corp. and White, Weld & Co.) 1,500,000 shares
U. S. Polymeric Chemicals, Inc.____Common
(Dominick & Dominick) 71,090 shares

**February 17 (Wednesday)**
Howe Plastics & Chemical Companies, Inc.____Com.
(Hilton Securities, Inc.) $100,000
Lewis Business Forms, Inc.____Common
(C. E. Unterberg, Towbin Co.) 110,000 shares

**February 18 (Thursday)**
Duke Power Co.____Bonds
(Bids to be invited) $50,000,000

**February 23 (Tuesday)**
Glass Magic, Inc.____Common
(R. A. Holman & Co., Inc.) 68,000 shares
Glass Magic, Inc.____Debentures
(R. A. Holman & Co., Inc.) $51,000
MPO Videotronics, Inc.____Common
(Francis I. du Pont & Co.) 150,000 shares
Texize Chemicals, Inc.____Common
(Kidder, Peabody & Co.) 174,576 shares

**February 24 (Wednesday)**
Brooklyn Union Gas Co.____Preferred
(Blyth & Co., Inc. and Eastman Dillon, Union Securities & Co.) $15,000,000
Duquesne Light Co.____Debentures
(Bids 11 a.m. EST) $20,000,000
Phillips Developments, Inc.____Common
(Allen & Co.; Bear, Stearns & Co. and Sutro Bros. & Co.) 400,000 shares
Public Service Co. of Oklahoma____Bonds
(Bids to be invited) $14,000,000

**February 25 (Thursday)**
Dayton Power & Light Co.____Bonds
(Bids to be invited) $25,000,000

**March 1 (Tuesday)**
Dworman Corp.____Common
(Charles Plohn & Co.) $3,000,000

**March 14 (Monday)**
Secode Corp.____Debentures
(No underwriting) $1,500,000

**March 15 (Tuesday)**
Central Illinois Light Co.____Bonds
(Bids to be invited) $14,000,000

**March 17 (Thursday)**
Mississippi Power Co.____Bonds
(Bids to be invited) $4,000,000

**April 7 (Thursday)**
Alabama Power Co.____Bonds
(Bids to be invited) $19,500,000

**June 2 (Thursday)**
Southern Electric Generating Co.____Bonds
(Bids to be invited) $40,000,000

**July 1 (Friday)**
Tennessee Valley Authority____Bonds
(Bids to be invited) $50,000,000

**July 7 (Thursday)**
Gulf Power Co.____Preferred
(Bids to be invited) $50,000,000
Gulf Power Co.____Bonds
(Bids to be invited) $5,000,000

**November 3 (Thursday)**
Georgia Power Co.____Bonds
(Bids to be invited) $12,000,000

*Continued from page 55*

debenture holders, 75c per share, which is equal to the price at which the debentures are convertible into common stock; for the shares to be offered to the underwriter, $1 per share; for the shares to be offered to the public, the price will be related to the current price of the outstanding shares on the American Stock Exchange at the time of the offering. **Proceeds**—For general corporate purposes. **Note** — This company was formerly known as Consolidated Cuban Petroleum Corp., which was a Delaware corporation with Havana offices. Its charter was amended last June, changing the corporate name and sanctioning its entry into real estate operations. The SEC announced a "stop order" on Dec. 10, challenging the registration statement, and the corporation told this newspaper they planned to re-register. An SEC hearing was scheduled for Jan. 25. **Office**—Miami Beach, Fla. **Underwriter**—H. Kook & Co., Inc., New York.

**Consolidated Natural Gas Co. (2/8)**
Jan. 14 filed $25,000,000 of debentures, due Feb. 1, 1985. **Proceeds**—For construction. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. and First Boston Corp. (jointly); White, Weld & Co. and Paine, Webber, Jackson & Curtis (jointly). **Bids**—Expected to be received at the office of the issuer, Room 3000, 30 Rockefeller Plaza, New York 20, New York, up to 11:30 a.m., New York Time, on Feb. 8.

**Consolidated Water Co.**
Dec. 30 (letter of notification) 24,900 shares of class A common stock (par $10). **Price**—$12 per share. **Proceeds** — To pay in part bank loans. **Office** — 327 S. La Salle Street, Chicago, Ill. **Underwriters**—Milwaukee Co., Milwaukee, Wis. and Indianapolis Bond & Share Corp., Indianapolis, Ind.

● **Consultants Bureau Enterprises, Inc.**
Dec. 29 filed 147,000 shares of class A common stock, of which 104,000 are to be offered for public sale for the account of the issuing company and 43,000 shares, representing outstanding stock, by the present holders thereof. **Price**—$3 per share. **Proceeds**—$100,000 to be allocated to translating and publishing additional new books; $25,000 to acquire and equip additional needed space for the company's operations; and the balance to acquire additional machinery and equipment for cold-type composition. **Office** — 227-239 West 17th Street, N. Y. **Undewriter**—William David & Co., Inc., N. Y. **Offering**—Expected in February.

**Control Electronics Co., Inc. (2/10)**
Dec. 23 filed 165,000 shares of common stock (par $3). **Price**—At par. **Proceeds**—To repay $80,000 of bank loans; $50,000 to replace working capital expended for equipment and machinery; $50,000 to increase sales efforts, including the organization of sales offices on the West Coast and in the Chicago areas; and $50,000 to further development of delay lines, filters and microwave devices. The balance of the proceeds will be added to working capital. **Office** — 10 Stepar Place, Huntington Station, N. Y. **Underwriters**—Milton D. Blauner & Co., Inc., David Finkle & Co. and Gartman, Rose & Feuer, all of New York.

**Cooperative Grange League Federation Exchange, Inc.**
Dec. 4 filed $250,000 of 4% subordinated debentures, 10,000 shares of 4% cumulative preferred stock, and 200,000 shares of common stock. The common shares may be offered only to present or prospective members of the Cooperative. **Prices**—For the debentures, 100% of principal amount; for the preferred, $100 per share; for the common, $5 per share. **Proceeds**—For general corporate purposes, including future redemptions of outstanding securities and property additions and improvements. **Office**—Terrace Hill, Ithaca, N. Y. **Underwriter**—None.

★ **Courtesy Finance Corp.**
Jan. 26 filed 1,700,000 shares of common stock. **Price**—$1.50 per share. **Proceeds**—For the company's loan business. **Office**—Salt Lake City, Utah. **Underwriter**—The offering is to be made by company officials.

● **Crown Aluminum Industries Corp. (2/1)**
Nov. 30 filed $1,500,000 of 17-year, 7½% debentures, due Jan. 15, 1977, and 180,000 shares of common stock, to be offered in units of $100 of debentures and 12 shares of stock. **Price**—$160 per unit; and $6.50 per share for an additional 100,000 shares included in the registration statement and not covered above. **Proceeds**—For general corporate purposes, including 1,200,000 for installing and equipping a hot rolling mill. **Office**—202 Reynolds Arcade Bldg., Rochester, N. Y. **Underwriter**—Adams & Peck, New York City.

**Crusader Oil & Gas Corp., Pass Christian, Miss.**
May 26 filed 1,500,000 shares of common stock, of which 641,613 shares will be offered on a one-for-one basis to stockholders. The remaining 858,387 shares will be offered publicly by the underwriter on a "best efforts" basis. **Price**—To be supplied by amendment. **Proceeds**—For repayment of notes and for working capital. **Underwriter**—To be supplied by amendment.

★ **Culligan, Inc.**
Jan. 22 filed 152,241 shares of common stock, of which 71,500 shares are to be offered for the account of the issuing company; 64,000 shares are to be offered for the account of the present holders thereof, and the remaining 16,741 shares are reserved for issuance upon conversion of an equivalent number of class B common shares. **Price**—To be supplied by amendment. **Proceeds**—To erect and equip the company's plant in Northbrook; for investment or advances to its subsidiary, CWC Finance Corp. to permit expansion of its Culligan dealer financing activities, and the balance for general corporate purposes. **Office**—1657 S. Shermer Road, Northbrook, Ill. **Underwriter** — Cruttenden, Podesta & Co., Chicago, Ill. **Offering**—Expected in early February.

**Davega Stores Corp.**
Nov. 25 filed 88,000 shares of common stock to be offered to present stockholders at the rate of one new share for each three shares held. **Price** — $7 per share. **Proceeds** — For expansion and other corporate purposes. **Office**—215 4th Ave., New York City. **Underwriter**—None.

★ **Dayton Power & Light Co. (2/25)**
Jan. 26 filed $25,000,000 of 30-year first mortgage bonds. **Proceeds**—Will be used to repay $18,000,000 of temporary bank loans and to defray part of the cost of the company's 1960 construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Eastman Dillon, Union Securities & Co. and Salomon Bros. & Hutzler (jointly); Merrill Lynch, Pierce, Fenner & Smith Inc. and White, Weld & Co. (jointly); Lehman Brothers, Blyth & Co., Inc. and The First Boston Corp. (jointly); Morgan Stanley & Co. and W. E. Hutton & Co. (jointly).

★ **Dayton Rubber Co.**
Jan. 21 filed $7,500,000 of convertible subordinated debentures. **Price**—To be supplied by amendment. **Proceeds**—For general corporate purposes including debt reduction and working capital. **Office**—Dayton, Ohio. **Underwriter**—Lehman Brothers, New York City.

● **Dentists' Supply Co. of N. Y. (2/3)**
Dec. 22 filed 200,000 shares of outstanding common stock ($2.50 par). **Price**—To be supplied by amendment. **Proceeds**—To selling stockholders. **Office**—York, Pa. **Underwriter**—Reynolds & Co., Inc., New York City.

● **Diversified Communities, Inc.**
Sept. 25 filed 367,200 shares of common stock (par $1). **Price**—To be supplied by amendment. **Proceeds**—For acquisition of Hope Homes, Inc., Browntown Water Co. and Cantor & Goldman Builders, Inc., with the balance to be used as working capital. **Office**—29A Sayre Woods Shopping Center, Madison Township, P. O. Parlin, N. J. **Underwriter**—Lee Higginson Corp., New York. **Offering**—Postponed.

★ **Dividend Shares, Inc.**
Jan. 21 (by amendment) an additional 7,000,000 shares of stock. **Proceeds** — For investment. **Office** — 1 Wall Street, New York City.

● **Don Mott Associates, Inc.**
Oct. 27 filed 161,750 shares of class B, non-voting, common stock (par $5). **Price**—$10 per share. **Proceeds**—For general corporate purposes, including payment on a building and the financing of loans. **Office**—Orlando, Fla. **Underwriter**—Leon H. Sullivan, Inc., Philadelphia, Pa., on a "best efforts" basis. **Offering** — Expected in about 10 days.

**Duke Power Co. (2/18)**
Jan. 6 filed $50,000,000 of first and refunding mortgage bonds, series due 1990. **Proceeds** — For construction. **Office**—Charlotte, N. C. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp.; Morgan Stanley & Co.; Stone & Webster Securities Corp.

★ **Duquesne Light Co. (2/24)**
Jan. 21 filed $20,000,000 of sinking fund debentures. **Proceeds**—For construction. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Eastman Dillon, Union Securities & Co.; A. C. Allyn & Co., Inc. and Ladenburg, Thalmann & Co. (jointly); White, Weld & Co.; The First Boston Corp. and Glore, Forgan & Co. (jointly); Blyth & Co., Inc.; Drexel & Co. and Equitable Securities Corp. (jointly).

● **Dworman Corp. (3/1-4)**
Jan. 15 filed 300,000 shares of common stock. **Price**—$10 per share. **Proceeds**—For general corporate purposes. **Office**—400 Park Avenue, New York City. **Underwriter**—Charles Plohn & Co., New York City.

**E. H. P. Corp.**
Aug. 31 filed 160,000 shares of capital stock (par 10c), of which 100,000 shares are to be publicly offered. **Price**—$2.50 per share. **Proceeds** — To provide funds for the purchase of vending machines which will be used to distribute automobile breakdown insurance policies on thruways, parkways and highways in the amount of $25 of such breakdown insurance for the purchase price of 25 cents, and for a public relations and publicity program. **Office**—Hotel Troy Building, Troy, New York. **Underwriter**—John R. Boland & Co., Inc., New York.

**ESA Mutual Fund, Inc.**
June 29 filed 2,000,000 shares of capital stock. **Price**—To be supplied by amendment. **Proceeds**—For investment. **Investment Adviser**—Yates, Heitner & Woods, St. Louis, Mo. **Underwriter**—ESA Distributors, Inc., Washington, D. C. **Office**—1028 Connecticut Avenue, N. W., Washington, D. C.

**Estates, Inc.**
Dec. 24 filed 200,000 shares of class A common stock. **Price**—$5 per share. **Proceeds**—For purchase of various properties, for development and subdivision thereof, and to meet operating expenses, salaries and other costs, but principally for the purchase and development of large tracts of land. **Office**—3636-16th Street, N. W., Washington, D. C. **Underwriter**—Consolidated Securities Co. of Washington, D. C.

★ **Federal Pacific Electric Co.**
Jan. 22 filed 492,500 shares of 5½% convertible second preferred stock, ($23 par) series A, to be exchanged on a share-for-share basis for the common stock of Cornell-Dubilier Electric Corp. **Office**—50 Paris Street, Newark, N. J.

● **Federated Purchaser, Inc.**
Jan. 11 filed 170,000 shares of class A stock. **Price**—$4 per share. **Proceeds**—To eliminate bank indebtedness of about $100,000, and to acquire and equip two new branches, one on the east coast and one on the west coast. The balance will be used for inventory, working capital, and general corporate purposes. **Office**—Mountainside, N. J. **Underwriter**—Milton D. Blauner & Co., Inc., New York City. **Offering**—Expected in late Feb.

**Federated Reserve Life Insurance Co.**
Jan. 19 filed 300,000 shares of common stock (par $1). **Price**—$10 per share. **Proceeds**—For capital and surplus of the company, which has not as yet done any life insurance business but expects to sell all forms of it. **Office**—West Memphis, Ark. **Underwriter**—The offering is to be made through three promoters and officers who will receive a selling commission of $2 per share.

**Finger Lakes Racing Association, Inc. (2/3)**
Dec. 28 filed $4,500,000 of 20-year 6% subordinated sinking fund debentures due 1980 and 450,000 shares of class A stock (par $5) to be offered in units, each consisting of $100 of debentures and 10 shares of class A stock. **Price**—$155 per unit. **Proceeds**—For purchase of land and the cost of construction of racing plant as well as other organizational and miscellaneous expenses. **Office**—142 Pierrepont Street, Brooklyn, N. Y. **Underwriter**—Stroud & Co., Inc., New York and Philadelphia.

★ **Fleming Co., Inc.**
Jan. 25 filed $1,690,000 of 5½% subordinated convertible debentures due 1975, to be offered, along with $676,000 cash, in exchange for 59,150 of the 84,500 outstanding shares of Schumacher Co. **Office** — Garlinghouse Building, Topeka, Kan.

● **Florida West Coast Corp. (2/4)**
Dec. 21 (letter of notification) 300,000 shares of common stock (par 1 cent). **Price**—$1 per share. **Proceeds**—For land acquisition. **Office**—30 E. 60th Street, New York City. **Underwriter** — Midtown Securities Corp., same address.

**Gallahue Naples Corp.**
Dec. 17 filed 110,000 shares of class A stock, of which 75,000 shares are to be offered for the account of D. R. Gallahue, the issuer's President, and 35,000 shares are to be offered for the company itself. 55,000 of Gallahue's shares will be delivered in escrow, to be thus held until Dec. 31, 1961, for purchase of holders of transferable warrants to be issued by the company to buyers of the other 55,000 shares at the offering price. **Price**—To be supplied by amendment. **Proceeds** — To reduce indebtedness. **Office**—542 North Meridian Street, Indianapolis, Ind. **Underwriter**—Raffensperger, Hughes & Co., Inc., Indianapolis.

**Gas Hills Uranium Co.**
Oct. 28 filed 6,511,762 shares of common stock, of which 3,990,161 are to be offered for sale. The remaining 2,521,601 shares are owned or underlie options owned by officers and/or directors, affiliates, and associates of the issuing company. Of the shares to be sold, 415,000 shares are to be offered to holders of the outstanding common at the rate of one new share for each 20 shares held; 500,000 shares are to be offered in exchange for properties and services; 326,883 shares are to be offered to certain holders of the company's convertible promissory notes; and 2,748,278 shares are to be offered for the account of selling stockholders, of which number 655,500 shares represent holdings of management officials and affiliated persons. **Price**—To be supplied by amendment. **Proceeds**—For general corporate purposes, including the repayment of indebtedness. **Office** — 604 South 18th Street, Laramie, Wyo. **Underwriter**—None.

**Gence & Associates, Inc.**
Nov. 13 (letter of notification) 100,000 shares of common stock (no par). **Price**—$3 per share. **Proceeds**—To pay an outstanding obligation and for working capital. **Office**—1500 E. Colorado St., Glendale, Calif. **Underwriter**—California Investors, Los Angeles, Calif.

● **General Aluminum Fabricators, Inc. (2/15)**
Dec. 15 filed 75,000 shares of common stock, each share bearing a warrant entitling the purchaser to buy one share of common at $4 until Jan. 30, 1961. **Price**—$4 per share. To reduce indebtedness, with the balance for working capital. **Office**—275 East 10th Avenue, Hialeah, Fla. **Underwriter**—Charles Plohn & Co., of New York City, on a "best efforts" basis.

**General Devices, Inc.**
Jan. 6 filed 60,888 shares of common stock, to be offered for subscription by common stockholders on the basis of one new share for each five shares held. **Price**—To be supplied by amendment. **Proceeds**—For land, construction thereon, new equipment, debt reduction, and working capital. **Office**—Ridge Road, Monmouth Junction, N. J. **Underwriter**—Drexel & Co., Philadelphia, Pa.

**General Foam Corp.**
Jan. 7 filed 175,000 shares of common stock. **Price**—$4 per share. **Proceeds**—To enable issuer to enter synthetic foam manufacturing business. **Office**—640 W. 134th Street, New York City. **Underwriters**—Brand, Grumet & Seigel, Inc., and Arnold Malkan & Co., Inc., on a "best efforts" basis. **Offering**—Expected in February.

● **Glass Magic, Inc. (2/23)**
Dec. 30 (letter of notification) $51,000 of six-year 6½% convertible debentures to be offered in denominations of $51 each. Debentures are convertible into common stock at $1.50 per share. Also, 68,000 shares of common stock (par 10 cents) to be offered in units of one $51 debenture and 68 shares of common stock. **Price**—Of debentures, at par; of stock, $102 per unit. **Proceeds**—To pay off current accounts payable; purchase of raw materials and for expansion. **Office** — 2730 Ludelle Street, Fort Worth, Texas. **Underwriter**—R. A. Holman & Co., Inc., New York, N. Y.

**Glastron Boat Co.**
Jan. 11 filed $600,000 of 6% sinking fund debentures, due Jan. 15, 1966, and 60,000 shares of common stock, to

be offered in units consisting of $100 of debentures and 10 shares of common stock. Price—$100 per unit. Proceeds—For additional plant facilities, including land and production equipment, and debt reduction. Office—920 Justin Lane, Austin, Texas. Underwriters—Hardy & Co., New York City, and Underwood, Neuhaus & Co., Houston, Texas.

**Gold Medal Packing Corp.**
June 18 filed 572,500 shares of common stock (par one cent), and 50,000 common stock purchase warrants. Of the shares 400,000 will be sold for the account of the company; 110,000 by certain stockholders; 12,500 for the underwriter; and the remaining 50,000 shares are purchasable upon exercise of the warrants. Price—$1.25 per share. Proceeds—For repayment of debt; purchase of equipment and facilities and other general corporate purposes. Office—614 Broad St., Utica, N. Y. Underwriter—Mortimer B. Burnside & Co., New York. Name Change — Formerly Eastern Packing Corp.

**● Gold Medal Studios, Inc.**
Sept. 18 filed 500,000 shares of common stock (par 10 cents). Price—$1 per share. Proceeds—For general corporate purposes, including the purchase of additional studio equipment, investing in properties in the entertainment field, and the provision of funds for a down payment on another building or buildings. Office—807 E. 175th Street, New York, N. Y. Underwriter—Arnold Malkan & Co., Inc., New York. Offering — Expected any day.

**Great Lakes Bowling Corp.**
Aug. 31 filed 120,000 shares of common stock (par $1). Price—To be supplied by amendment. Proceeds—For general corporate purposes, including the development of bowling lanes, bars, and restaurants on various Michigan properties. Office—6336 Woodward Ave., Detroit, Mich. Underwriter—Straus, Blosser & McDowell, Chicago, Ill.

**● Great Southwest Corp.**
Dec. 10 filed $11,500,000 of cumulative income debentures, due Jan. 1, 1975, and 575,000 shares of common stock (par $1), to be offered in units of $20 principal amount of debenture and one share of common. Price—$28 per unit. Proceeds—For debt reduction and the building of a recreation park. Office—3417 Gillespie Street, Dallas 19, Texas. Underwriter—Glore, Forgan & Co., New York City. Offering—Expected in Mid-Feb.

**Greer Hydraulics, Inc.**
Nov. 27 filed 235,139 additional shares of common stock ($.50 par) being offered for subscription by holders of the outstanding common on the basis of four additional shares for each five shares held Jan. 14; rights expire Jan. 29. Price — $4 per share. Office — Jamaica, L. I., N. Y. Proceeds—To relocate company in Los Angeles, with the balance to be used for general corporate purposes, including the reduction of indebtedness. Underwriter—Burnham & Co., New York City.

**Growth Fund of America, Inc.**
Feb. 4 filed 250,000 shares of common stock (par 10 cents). Price—At market. Proceeds—For investment Office — 1825 Connecticut Avenue, Washington, D. C Investment Advisor — Investment Advisory Service Washington, D. C. Underwriter—Investment Management Associates, Inc., Washington, D. C. The statement became effective July 24.

**Guaranty Insurance Agency, Inc.**
See, Mortgage Guaranty Insurance Corp., below.

**Guardian Tilden Corp.**
Dec. 17 filed 100,000 shares of cumulative preferred stock (par $10), $1,060,000 of 15-year 8% subordinated capital notes, and $1,250,000 of 12-year 7% subordinated capital notes. Prices — At par and principal amounts. Proceeds — For general corporate purposes. Office — 45-14 Queens Boulevard, Long Island City, N. Y. Note: The securities are to be offered first to holders of securities in Guardian Loan Co., Inc. and Tilden Commercial Alliance, Inc., subsidiaries of the issuing company. Underwriter—None.

**★ Gulf Life Insurance Co., Inc.**
Jan. 14 (letter of notification) 3,481 shares of capital stock (par $2.50). Price—At public auction (current over-the-market price). Proceeds—To be divided pro rata among the stockholders. Office—124 W. Ashley Street, Jacksonville, Fla. Underwriter—None.

**● Harmar Co., Inc.**
Nov. 18 (letter of notification) $50,000 of 6½% 10-year convertible subordinated debentures series A to be offered in denominations of $500 each. Debentures are convertible into class B common stock at the rate of five shares for each $500 debenture. Price—At par. Proceeds—For working capital. Underwriter—Eastern Investment Corp., Manchester, N. H., who stated on Jan. 25 that the issue will be placed privately.

**Harundale Mall Associates**
Jan. 7 filed $1,190,000 of partnership interests in Associates. Price—$10,000 per unit. Proceeds—To acquire one-half interest in Harundale Mall, a regional shopping center in Anne Arundel County, Maryland. Office—14 West Saratoga Street, Baltimore, Md. Underwriter—None.

**● Hebrew National Kosher Foods, Inc. (2/1)**
Dec. 11 filed 350,000 shares of common stock, of which 175,000 shares are to be offered for the account of the issuing company and 175,000 shares, representing outstanding stock, are to be offered for the account of the present holders thereof. Price—$4 per share. Proceeds—For general corporate purposes. Office — 178 South Elliott Place, Brooklyn, N. Y. Underwriters — Brand, Grumet & Seigel, Inc., and Arnold Malkan & Co., Inc., both of New York City, on a "best efforts" basis.

**Hermetite Corp.**
Jan. 8 filed 136,000 shares of common stock, of which 125,000 are to be publicly offered and 11,000 have been already acquired at $1 per share by the President of M. L. Lee & Co. Price—$5 per share. Proceeds—For general corporate purposes. Office—702 Beacon Street, Boston, Mass. Underwriters—M. L. Lee & Co., Inc.; Milton D. Blauner & Co., Inc.; and Kesselman & Co., Inc., all of New York City, on an "all or nothing" basis. Offering—Expected in March.

**Hi-Press Air Conditioning Corp. of America (2/3)**
Dec. 29 filed 200,000 shares of common stock. Price—$3 per share. Proceeds—For working capital. Office—405 Lexington Ave., New York City. Underwriter—Plymouth Securities Corp., New York City.

**★ Honolulu Ltd., Honolulu, Hawaii**
Jan. 26 filed 172,830 shares of capital stock, to be offered in exchange for the common stock of Honolulu Rapid Transit Co. Ltd. on a share-for-share basis, such offer to be conditional upon its acceptance by holders of at least 80% of the outstanding shares of Rapid Transit.

**● Howe Plastics & Chemical Companies, Inc. (2/17)**
Dec. 14 (letter of notification) 100,000 shares of common stock (par one cent). Price—$1 per share. Proceeds—For general corporate purposes. Office—125 E. 50th Street, New York, N. Y. Underwriter—Hilton Securities, Inc., 580 Fifth Avenue, New York, N. Y.

**I C Inc.**
June 29 filed 600,000 shares of common stock (par $1) Price—$2.50 per share. Proceeds—To further the corporate purposes and in the preparation of the concentrate and enfranchising of bottlers, the local and national promotion and advertising of its beverages, and where necessary to make loans to such bottlers, etc. Office—704 Equitable Bldg., Denver, Colo. Underwriters— Purvis & Co. and Amos C. Sudler & Co., both of Denver Colo.

**★ Industron Corp.**
Jan. 14 (letter of notification) 60,000 shares of class A common stock (par $1). Price—$4 per share. Proceeds—For working capital. Office — 55 Needham Street, Newton Highlands, Mass. Underwriter—Schirmer, Atherton & Co., Boston, Mass.

**● Integrand Corp.**
Oct. 13 filed 85,000 shares of common stock (par 5c). Price—$4 per share. Proceeds — For general corporate purposes, including the redemption of outstanding preferred stock and new plant equipment. Office—Westbury, L. I., N. Y. Underwriter—DiRoma, Alexik & Co., Springfield, Mass. Offering—Expected in February.

**International Aspirin Corporation**
Dec. 7 filed 600,000 shares of common stock. Price—$3 per share. Proceeds—For general corporate purposes. Office—1700 Broadway, Denver, Colo. Underwriter—Speculative Securities Corp., 915 Washington Street, Wilmington, Del., on a "best efforts" basis.

**International Bank, Washington, D. C.**
Dec. 29, 1958, filed $5,000,000 of notes (series B, $500,000, 2-year, 3% per unit; series C, $1,000,000 4-year 4% per unit; and series D, $3,500,000 6-year, 5% per unit). Price—100% of principal amount. Proceeds—For working capital. Underwriter—Johnston, Lemon & Co., Washington, D. C. Offering—Indefinitely postponed.

**Island Industries, Inc.**
Nov. 23 (letter of notification) $200,000 of 10-year 10% registered debentures. Price—$100 per debentures. Proceeds—For general corporate purposes. Office — 30 E. Sunrise Highway, Lindenhurst, N. Y. Underwriter — Heft, Kahn & Infante, Inc., Hempstead, L. I., N. Y.

**Kavanagh-Smith & Co.**
Dec. 30 filed 145,000 shares of common stock, of which 115,000 shares are to be offered for the account of the issuing company and 30,000 shares, representing outstanding stock, are to be offered for the accounts of the present holders thereof. Prices—For 20,000 shares, to be initially offered to company personnel, $4.50 per share; for the balance, $5 per share. Proceeds—For the retirement of $166,850 of bank indebtedness, acquisition and development of land, construction of houses for sale, and general corporate purposes. Office—114 North Greene Street, Greensboro, N. C. Underwriter—United Securities Co., Greensboro.

**Lafayette Radio Electronics Corp.**
Dec. 4 filed 225,000 shares of common stock ($1 par). Price—$5 per share. Proceeds—For general corporate purposes including inventory, leasehold improvements, and working capital. Office — 165-08 Liberty Avenue, Jamaica, L. I., N. Y. Underwriter—D. A. Lomasney & Co., New York City. Offering—Expected in late February.

**Lancer Industries, Inc.**
Nov. 27 filed 200,000 shares of $.70 convertible preferred stock (par $10). Price—$10 per share. Proceeds—For general corporate purposes. Office—22 Jericho Turnpike, Mineola, L. I., N. Y. Underwriter—Charles Plohn & Co., New York City. Offering—Expected in January.

**Landsverk Electrometer Co.**
Dec. 28 (letter of notification) 150,000 shares of common stock (no par). Price—$2 per share. Proceeds—To cover the cost of new quarters and for the development of new projects and for working capital. Office—641 Sonora Avenue, Glendale, Calif. Underwriter—Holton, Henderson & Co., Los Angeles, Calif.

**Larson Boat Works, Inc.**
Jan. 8 filed $300,000 of 5-year notes wth common stock purchase warrants attached, said warrants granting holder the right to buy 40 shares of the common for each $1,000 principal amount of notes held at $10 per common share. Price—The notes are to be offered at face value in denominations of $500. Proceeds — For working capital. Address—c/o Paul G. Larson, Riverview Drive, Little Falls, Minn. Underwriter—Fulton, Reid & Co., Inc., Cleveland, Ohio.

**● Lawn Electronics Co., Inc.**
Nov. 25 (letter of notification) 133,000 shares of common stock (par one cent). Price—$1.50 per share. Proceeds—For general corporate purposes. Office — Woodward Road, Englishtown, N. J. Underwriter—Prudential Securities Corp., Staten Island, N. Y. The registration statement will be altered and the number of shares reduced.

**● Levitt & Sons, Inc., Levittown, N. J. (2/1-5)**
Dec. 28 filed 600,000 outstanding shares of its capital stock. Price—To be supplied by amendment; it will reportedly be about $10 per share. Proceeds—To William J. Levitt, President (selling stockholder). Underwriter—Ira Haupt & Co., New York.

**● Lewis Business Forms, Inc. (2/17)**
Jan. 15 filed 110,000 shares of common stock, of which 100,000 shares are to be offered for the account of the issuing company and 10,000 shares, representing outstanding stock, are to be offered for the account of M. G. Lewis, President. Price—To be supplied by amendment. Proceeds — To reduce bank loans, redeem 190 shares of the outstanding preferred, and continue the company's modernization and expansion program. Office—2432 Swan Street, Jacksonville, Fla. Underwriter—C. E. Unterberg, Towbin Co., New York City.

**★ Lewis Swimming Pool Construction Co., Inc.**
Jan. 15 (letter of notification) 60,000 shares of class A common stock (par 50 cents). Price — $5 per share. Proceeds—To acquire property and for working capital. Office—115 Mary Street, Falls Church, Va. Underwriter—Securities Registration & Transfer Corp., Washington, D. C.

**★ Loomis-Sayles Mutual Fund, Inc.**
Jan. 25 (by amendment) 1,000,000 additional shares of common stock (par $1). Price—$14.44 per share. Proceeds—For investment. Office—140 Federal St., Boston 10, Mass. Underwriter—None.

**● (G. B.) Macke Corp., Washington, D. C. (2/3)**
Dec. 29 filed 125,000 shares of class A common stock, of which 105,000 shares are to be publicly offered and 20,000 shares offered to employees. Price—For the publicly offered shares the price will be supplied by amendment. For the shares to be offered to employees the price per share will be $9.50 in cash or $9.75 if the purchase price is paid through wage deductions. Proceeds—For general corporate purposes. Underwriter—Auchincloss, Parker & Redpath, Washington, D. C.

**Magnuson Properties, Inc.**
June 29 filed 500,000 shares of class A common stock (amended on Aug. 24 to 150,000 shares of 6½% cumulative convertible preferred stock, par $10), and 150,000 shares of class A common stock, par $1, with common stock purchase warrants. Each share of class A common stock carries one warrant entitling the registered holder to purchase one share of such common stock at an initial price of $11 per share. Price—For preferred, at par; and for class A, $10.10 per share. Proceeds—$291,099 is to be expended during the period ending Aug. 31, 1960 for mortgage payments and releases; $465,000 will be paid on notes acquired by members of the Magnuson family in the transfers of subsidiaries and properties to the company; $106,000 will be used to close certain options and purchase contracts covering lands in the Melbourne-Cape Canaveral area; the balance will be added to the general funds of the company and used for general corporate purposes. Office—20 S. E. 3rd Ave., Miami, Fla. Underwriter—Blair & Co. Inc., New York.

**Megadyne Electronics, Inc.**
Jan. 7 (letter of notification) 300,000 shares of common stock (par 10 cents). Price—$1 per share. Proceeds—For general corporate purposes. Office—100 W. 10th Street, Wilmington, Del. Underwriter—Glenn Arthur Co., Inc., New York, N. Y.

**● Micronaire Electro Medical Products Corp.**
Oct. 16 filed 200,000 shares of common stock (par 10 cents) and 50,000 one-year warrants for the purchase of such stock at $3 per share, to be offered in units of 100 shares of common stock and 25 warrants. Price—$275 per unit. Proceeds—For general corporate purposes, including the discharge of indebtedness, the expansion of sales efforts, and for working capital. Office—79 Madison Avenue, New York City. Underwriter—General Investing Corp., New York. Offering—Expected next week.

**Minalaska, Inc.**
Dec. 21 (letter of notification) 200,000 shares of common stock (par 10 cents). Price—$1.50 per share. Proceeds — For mining expenses. Office — Ophir, Alaska. Underwriter—B. D. McCormack Securities Corp., New York, N. Y.

**★ Missile Components Corp.**
Jan. 18 (letter of notification) 60,000 shares of common stock (par 10 cents). Price—$3 per share. Proceeds—For general corporate purposes. Office—2300 Shames Drive, Westbury, N. Y. Underwriter—Mortimer B. Burnside & Co., Inc., New York, N. Y.

**★ Mitchell (Hubert) Industries, Inc.**
Jan. 18 (letter of notification) 80,000 shares of common stock (par $1). Price—$2.50 per share. Proceeds—To pay all non-current accounts, taxes, mortgage and for working capital. Office—Hartselle, Ala. Underwriter—Berry, Douglas & Fitzhugh, Inc., Nashville, Tenn.

**Mobilife Corp.**
Jan. 18 filed 250,000 shares of common stock (par 50 cents). Price—$4 per share. Proceeds—For debt reduction and working capital. Office—Sarasota, Fla. Underwriter—Plymouth Bond & Share Corp., Miami, Fla.

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**● Montreal Metropolitan Corp. (2/2-9)**
Dec. 23 filed $30,000,000 of sinking fund debentures, due Feb. 1, 1985, to be redeemable at the option of the issuer on or after Feb. 1, 1970. **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans incurred for construction. **Office**—Quebec, Canada. **Underwriters**—First Boston Corp. and associates.

**★ Morrison Cafeterias Consolidated, Inc.**
Jan. 14 (letter of notification) 9,000 shares of common stock (par $5) to be offered to employees under the Employee Stock Purchase Plan. Offer expires Feb. 28, 1960. **Price**—$17 per share. **Proceeds**—For working capital. **Address**—P. O. Box 309, Mobile, Ala. **Underwriter**—None.

**Morse Electro Products Corp.**
Dec. 28 filed 120,000 shares of common stock. **Price**—$7 per share. **Proceeds**—Together with other funds, will be used for the opening of three additional retail stores, and for additional working capital. **Office** — 122 West 26th Street, New York. **Underwriters**—Standard Securities Corp. and Irving Weis & Co., both of New York, on an all-or-nothing basis.

**Mortgage Guaranty Insurance Corp.**
Sept. 23 filed 40,000 shares of common stock (par $10) in a joint registration with Guaranty Insurance Agency, Inc., which filed 10,000 shares of its own common stock (par $5). **Price**—$115 per unit of four shares of Mortgage common and one share of Guaranty common. **Proceeds**—Mortgage will use its proceeds fo rexpansion; Guaranty will use its proceeds for additional working capital. **Office**—(of both firms) 606 West Wisconsin Ave., Milwaukee, Wis.

**● MPO Videotronics, Inc. (2/23)**
Jan. 18 filed 150,000 shares of class A stock ($1 par) of which 100,000 share are to be offered for account of issuing company and 50,000 shares, representing outstanding stock, are to be offered for the account of the present holders thereof. **Price**—To be supplied by amendment. **Proceeds**—For general corporate purposes, including debt reduction. **Office**—15 East 53rd Street, New York City. **Underwriter**—Francis I. du Pont & Co., New York City.

**Murphy Finance Co.**
Dec. 21 filed 100,000 shares of common stock (par $10). **Price**—To be supplied by amendment. **Proceeds**—For working capital and debt reduction. **Office**—174 E. 6th St., St. Paul, Minn. **Underwriter**—Piper, Jaffray & Hopwood, Minneapolis, Minn.

**Mutual Credit Corp.**
Oct. 6 (letter of notification) $300,000 of 6½% convertible subordinated debentures, series A, due Oct. 1, 1969. Debentures are convertible at any time through Oct. 1, 1968 into class A non-voting common stock (par $5) at the rate of 100 shares of such stock for each $500 of debentures converted. **Price**—At face amount. **Proceeds**—For the general funds of the company. **Office**—c/o Raymond F. Wentworth, 6 Milk St., Dover, N. H. **Underwriter**—Eastern Investment Corp., Manchester, N. H.

**Narda Microwave Corp.**
June 16 filed 50,000 shares of common stock (par 10 cents) and 50,000 warrants to be offered in units, consisting of one share of common stock with attached warrant entitling the holder to purchase one additional share. The statement also includes an additional 10,000 shares of common stock reserved for issuance to key employees pursuant to options. **Price**—To be supplied by amendment. **Proceeds** — To be used to retire bank loans. **Underwriter**—Milton D. Blauner & Co., Inc., New York. Indefinitely postponed.

**National Equipment Rental, Ltd.**
Dec. 30 filed $2,000,000 of 6% subordinated sinking fund debentures, due Feb. 1, 1970, with common stock purchase warrants attached, and 207,500 shares of common stock, of which 127,500 shares of the common are to be offered for the account of selling stockholders, 80,000 shares of the common are to be reserved for issuance upon the exercise of the warrants, and the remaining 100,000 common shares are to be offered in units with the debentures, each unit to consist of 10 common shares and $200 principal amount of debentures. **Price**—$250 per unit. **Proceeds**—For working capital, to be used for expansion. **Office**—Floral Park, L. I., N. Y. **Underwriter**—Burnham & Co., New York City.

**National Lawnservice Corp.**
Jan. 11 (letter of notification) 100,000 shares of common stock (par one cent). **Price**—$3 per share. **Proceeds** — For general corporate purposes. **Office** — 410 Livingston Avenue, North Babylon, N. Y. **Underwriter**—Fund Planning Inc., New York, N. Y.

**★ Nekoosa-Edwards Paper Co.**
Jan. 11 (letter of notification) 6,593 shares of class A common stock (par $10) and 6,593 shares of class B common stock (par $10) to be offered in units of one share of class A common and one share of class B common. The units of capital stock subject to options outstanding on Dec. 1, 1959 were equitably adjusted to reflect the 6% class B common stock dividend paid on that date on both the class A and class B common stocks. **Price**—At the nearest quarter of a point above 95% of the market price at date of grant of option. **Proceeds**—For working capital. **Office**—220 Wisconsin River Drive, Port Edwards, Wis. **Underwriter**—None.

**● New Brunswick (Province of) (2/2)**
Jan. 7 filed $15,000,000 of 25-year sinking fund debentures, due Feb. 1, 1985. **Proceeds**—To be advanced to New Brunswick Electric Power Commission. **Office**—New Brunswick, Canada. **Underwriters**—Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co., and W. C. Pitfield & Co., Inc., all of New York City.

**★ Nord Photocopy & Business Equipment Co.**
Jan. 27 filed 36,400 shares of common stock, of which 3,500 shares are to be offered for the account of the issuing company and 32,900 shares, representing outstanding stock, are to be offered for the account of the present holders thereof. **Price**—To be related to the market. **Proceeds**—To buy outstanding capital shares of Television Utilities Corp., with the balance for general corporate purposes. **Office**—New York City. **Underwriter**—Myron A. Lomasney & Co., New York City. **Note** — Last Sept. 25 the same underwriter offered to quick oversubscription 100,000 shares of Nord common at $5 per share.

**★ North American Investment & Development Corp. (2/1)**
Dec. 7 (letter of notification) 100,000 shares of common stock (no par). **Price**—$3 per share. **Proceeds**—To organize a finance company. **Office**—906 Main St., Cincinnati, Ohio. **Underwriter** — Howard Coleman Co., 111 Broadway, New York 6, N. Y.

**Nu-Era Corp.**
Nov. 30 filed 275,000 shares of common stock, of which 200,000 are to be publicly offered. **Price**—$3.75 per share. **Proceeds**—To reduce indebtedness and increase inventories of gears and mufflers. **Office** — 342 South St., Rochester, Michigan. **Underwriter**—Mortimer B. Burnside & Co., Inc., on an "all or nothing best efforts" basis. The underwriter will receive $15,000 for expenses, a $.75 per share selling commission on the 200,000 shares comprising the public offering, and the privilege of purchasing 37,500 shares of the common stock at $.10 per share. The 37,500 shares thus far unaccounted for are to be sold to John L. Appelbaum at $.10 per share in consideration of certain services rendered. **Offering**—Expected in February.

**● Occidental Petroleum Corp.**
Oct. 29 filed 615,854 shares of common stock (par 20 cents), 312,094 shares of which are being offered for subscription by holders of outstanding common stock at the rate of one new share for each 10 shares held on Jan. 8; offer expires Jan. 29. The remaining shares are to be offered to a group of individuals, not as yet named, who have agreed to purchase not less than 312,094 shares, and will also be offered shares not bought by the holders of the outstanding common. **Price**—$4 per share. **Proceeds**—For drilling, exploration, development, and to purchase an interest in Parker Petroleum Co. **Office**—8255 Beverly Boulevard, Los Angeles, Calif. **Underwriter**—None. **Subscription Agents:** California Bank and Chase Manhattan Bank.

**● Oil, Gas & Minerals, Inc.**
April 2 filed 260,000 shares of common stock (par 3: cents. **Price**—$2 per share. **Proceeds**—To retire bank loans and for investment purposes. **Office**—513 International Trade Mart, New Orleans, La. **Underwriter** Assets Investment Co., Inc., New Orleans, La. The SEC "stop order" hearing has been postponed from Jan. 23 to Feb. 25.

**Onyx Chemical Corp.**
Jan. 15 filed 140,000 shares of common stock (no par). **Price**—To be supplied by amendment. **Proceeds**—To acquire Onyx Oil & Chemical Co. **Office** — 190 Warren Street, Jersey City, N. J. **Underwriter**—McDonnell & Co., Inc., New York City. **Offering**—Expected in February.

**Ovitron Corp., Detroit, Mich.**
Oct. 27 filed 150,000 shares of common stock (par one cent). **Price**—$6 per share. **Proceeds**—For research and working capital. **Underwriter**—Sutro Bros. & Co., New York.

**★ Owens Metal Co.**
Jan. 15 (letter of notification) 33,250 shares of common stock (par $2). **Price**—$9 per share. **Proceeds**—To reduce short term bank loans and accounts payable and for working capital. **Office**—1524 Crystal Avenue, Kansas City, Mo. **Underwriter**—Stern Bros. & Co., Kansas City, Mo.

**Oxy-Catalyst, Inc.**
Dec. 23 filed 28,637 shares of common stock. The company proposes to offer 11,372 shares for subscription by its common stockholders of record Jan. 15, 1960, upon the basis of one new share for each 50 shares then held. The remaining 17,265 shares are to be offered to certain officers and employees of the company upon the exercise of options to purchase said shares, the option price being $9.35 as to 6,575 shares and $11 as to 10,690. **Price**—For rights offering, to be supplied by amendment. **Proceeds**—For additional working capital. **Office**—511 Old Lancaster Road, Berwyn, Pa. **Underwriter**—None.

**Pacific Gold, Inc.**
Dec. 9 (letter of notification) 75,000 shares of common stock. **Price** — At par ($1 per share). **Proceeds** — For mining expenses. **Office**—404 Mining Exchange Building, Colorado Springs, Colo. **Underwriter**—Birkenmayer & Co., Denver, Colo.

**★ Pacific Telephone & Telegraph Co. (2/16)**
Jan. 22 filed $72,000,000 of 33-year debentures, due Feb. 1, 1993, and 10,045,630 shares of common stock, said debentures to be offered at competitive bidding and said common shares to be offered at par ($14 2/7 per share), without underwriting. The common stock will be offered to holders of the outstanding common and preferred on the basis of one such share for each 10 common shares held and seven such common shares for each 10 preferred shares held. **Proceeds**—To reimburse the issuer's treasury for expenditures made for property additions and improvements. Probable bidders: Halsey, Stuart & Co. Inc., and Morgan Stanley & Co. **Office**—140 New Montgomery Street, San Francisco 5, Calif.

**● Pantasote Co. (2/1)**
Jan. 8 filed 350,000 shares of common stock. **Price**—To be supplied by amendment. **Proceeds**—For new plant (to be built by Scientific Design Co., Inc.) and equipment and "start-up" expenses pertaining thereto, with the balance, if any, to be used as working capital. **Office**—26 Jefferson St., Passaic, N. J. **Underwriter** — Bear, Stearns & Co., New York City.

**Pathe News, Inc. (2/10)**
Sept. 17 filed 400,000 shares of common stock (par 10 cents) with warrants to purchase an additional 100,000 common shares at $3.25 per share. **Price** — $3.75 per share, with warrants. **Proceeds**—For general corporate purposes, including the addition of working capital, the reduction of indebtedness, and the provision of the $173,000 cash required upon the exercise of an option to purchase the building at 245-249 W. 55th St., New York. **Office**—245 W. 55th Street, New York. **Underwriter**—Hilton Securities, Inc., formerly Chauncey, Walden, Harris & Freed, Inc., New York.

**★ Peterson Electronic Die Co., Inc.**
Jan. 19 (letter of notification) 100,000 shares of common stock (par $1). **Price**—$3 per share. **Proceeds**—For general corporate purposes. **Office**—382 Springfield Ave., Summit, N. J. **Underwriter**—G. K. Shields & Co., New York, N. Y.

**Phillips Developments, Inc. (2/24)**
Dec. 21 filed 400,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Proceeds**—For property development, possible acquisitions, and working capital. **Office** — 1111 West Foothill Blvd., Azusa, Calif. **Underwriters**—Allen & Co., Bear, Stearns & Co., and Sutro Bros. & Co., all of New York City.

**★ Plastic & Fibers, Inc.**
Jan. 18 (letter of notification) 85,714 shares of common stock (par 40 cents). **Price**—$3.50 per share. **Proceeds**—For general corporate purposes. **Office** — Whitehead Ave., South River, N. J. **Underwriter**—Arnold Malkan & Co., Inc., New York, N. Y.

**Precision Transformer Corp., Chicago**
Dec. 29 filed $700,000 of 6½% subordinated convertible debentures, due 1970, with attached warrants to purchase 28,000 common shares; and warrants for the purchase of 125,000 common shares, which may be issued to company-connected people; and 150,000 common shares. **Prices**—For the debentures, par; for the common, the price will be supplied by amendment. **Proceeds** — For debt reduction, plant construction, and equipment. **Underwriter**—John R. Boland & Co., Inc., New York City, who will work on a "best efforts" basis and receive a commission of $120 per $1,000 debentures sold.

**Preferred Insurance Co.**
Dec. 30 filed 59,364 shares of outstanding common stock, to be exchanged by certain of the issuer's shareholders subject to an agreement with Preferred Automobile Underwriters Co. **Office** — 126 Ottawa Avenue, N. W., Grand Rapids, Mich.

**Prudential Commercial Corp.**
Oct. 21 (letter of notification) 150,000 shares of common stock (par one cent). **Price**—$2 per share. **Proceeds**—For general corporate purposes. **Office**—City of Dover, County of Kent, Del. **Underwriter**—All State Securities, Inc., 80 Wall Street, New York, N. Y.

**★ Public Service Co. of Oklahoma (2/24)**
Jan. 25 filed $14,000,000 of first mortgage bonds, series H, due Feb. 1, 1990. **Proceeds**—For construction. **Office** Public Service Bldg., 600 S. Main, Tulsa 2, Okla. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; White, Weld & Co. and Shields & Co. (jointly); Blyth & Co., Inc.; The First Boston Corp.; Equitable Securities Corp. and Eastman Dillon, Union Securities & Co. (jointly); and Glore, Forgan & Co.

**● Puget Park Corp. (2/15)**
Jan. 6 filed 125,650 shares of common stock. **Price**—$6.50 per share. **Proceeds**—To buy land and reduce indebtedness. **Office**—Seattle, Wash. **Underwriter**—Hill, Darlington & Co., of Seattle and New York City.

**Reserve Insurance Co., Chicago, Ill.**
Oct. 20 filed 110,837 shares of capital stock, of which 62,676 are to be sold for the company's account and 48,161 shares are to be sold for the account of certain selling stockholders. **Price**—To be supplied by amendment. **Proceeds**—To be added to the general funds of the company to enable it to finance a larger volume of underwriting and to expand its area of operations. **Underwriter**—A. G. Becker & Co. Inc., Chicago, Ill. This offering will not be made in New York State. **Offering**—Postponed indefinitely.

**Row, Peterson & Co. (2/8)**
Jan. 6 filed 164,689 shares of common stock, of which 157,346 shares are to be offered for the account of nine selling stockholders and 7,343 shares for the account of the issuer. **Price**—To be supplied by amendment. (Giving effect to the completion of the proposed offering, net operating profit in the fiscal year ending April 30, 1959 was about $1.48 per share.) **Office**—Evanston, Ill. **Underwriter**—Kidder, Peabody & Co., Inc.

**Seacrest Industries Corp.**
Dec. 4 (letter of notification) 165,000 shares of common stock (par one cent). **Price**—$1 per share. **Proceeds**—For general corporate purposes. **Office**—354 Franklin Avenue, Franklin Square, L. I., N. Y. **Underwriter**—A. J. Gabriel Co., Inc., New York, N. Y.

**● Secode Corp. (3/14)**
Dec. 28 filed $1,500,000 of 6% convertible subordinated debentures due July 1, 1965. The company proposes to offer $300,000 of the debentures in exchange for its 6% convertible notes due July 30, 1962; $587,000 in exchange for its demand notes totaling $587,000; and the balance, or $613,000, to the public for cash. **Office**—555 Minnesota Street, San Francisco, Calif. **Underwriter**—No underwriting is involved; but the debentures offered

for the cash sale will be sold on a best efforts basis through dealers who will receive a 5% commission.

**Shield Chemical Ltd.**
Sept. 8 (letter of notification) 95,000 shares of capital stock (par 10 cents). **Price**—$1.50 per share. **Proceeds**—To purchase and install manufacturing equipment; control and test equipment; advertising and for working capital. **Office**—17 Jutland Road, Toronto, Canada. **Underwriter**—Peters, Writer & Christensen, Inc., Denver, Colorado.

★ **Sonar Radio Corp.**
Jan. 22 filed 195,000 shares of common stock. **Price**—$3 per share. **Proceeds**—To move to new plant facilities; to acquire additional working capital; to expand production facilities and for operations; for research and development; for test equipment and for advertising and sales promotion. **Office**—3050 W. 21st Street, Brooklyn, N. Y. **Underwriter** — George O'Neill & Co., Inc., New York, N. Y.

★ **Sooner Life Insurance Co.**
Jan. 12 (letter of notification) 100,000 shares of common stock (par $1). **Price**—$2.50 per share. **Proceeds**—For working capital. **Address**—P. O. Box 751, Ponca City, Okla. **Underwriter**—None.

**Soroban Engineering, Inc. (2/10)**
Dec. 29 filed 100,000 shares of its common stock. **Price** —To be supplied by amendment. **Proceeds** — For acquisition of land and erecting an additional plant, for tooling and additional equipment, for fixtures and general furnishings for the new plant, and for reduction of bank indebtedness. **Office**—7725 New Haven Avenue, Melbourne, Fla. **Underwriter** — R. S. Dickson & Co., Inc., Charlotte, N. C.

**Sottile, Inc. (Formerly South Dade Farms, Inc.)**
July 29 filed 2,000,000 shares of common stock (par $1), of which 1,543,000 shares are to be issued and sold for the account of the company, and 457,000 shares, representing outstanding stock, to be sold for the accounts of certain selling stockholders. **Price**—To be supplied by amendment. **Proceeds**—To retire 70% of the common stock outstanding at the date of the stock offering; to invest in the capital stocks of six of the company's seven bank subsidiaries; to repay a bank loan of $6,400,-000; to add to working capital; to retire certain long-term indebtedness; and to develop citrus groves. **Office** —250 South East First Street, Miami, Fla. **Underwriter** —Bear, Stearns & Co., New York. **Offering**—Indefinite.

● **South Bay Industries, Inc. (2/5)**
Dec. 11 filed 210,000 shares of class A stock. **Price**—$5 per share. **Proceeds**—To pay off bank loans, purchase machinery, and add to working capital. **Office** — 42 Broadway, New York City. **Underwriter**—Amos Treat & Co., Inc., of New York City, on a "best efforts" basis. **Offering**—Expected in February.

● **Southeastern Public Service Co. (2/3)**
Jan. 14 filed 104,961 shares of common stock, to be offered to common stockholders of record Feb. 3 on the basis of one new share for each 10 shares then held. **Price**—To be supplied by amendment. **Proceeds**—For general corporate purposes, including investments in the issuer's subsidiaries. **Office**—70 Pine St., New York City. **Underwriter**—Bioren & Co., Philadelphia, Pa.

● **Sta-Brite Fluorescent Manufacturing Co. (2/1)**
Nov. 27 filed 140,000 shares of common stock (par $.10). **Price**—$5 per share. **Proceeds**—For plant improvements, opening new muffler and brake shops, advertising, new product engineering and promotion, and working capital. **Office**—3550 N. W. 49th St., Miami, Fla. **Underwriter**—Charles Plohn & Co., New York City.

**Stantex Corp.**
Dec. 28 (letter of notification) 300,000 shares of common stock (par 25 cents). **Price**—$1 per share. **Proceeds**—For new quarters, expansion and working capital. **Office**—40 N. 2nd Street, Philadelphia, Pa. **Underwriters**—First City Securities, Inc., New York, N. Y. and Frank P. Hunt & Co., Inc., Rochester, N. Y.

**Supermarket Service, Inc.**
Oct. 14 (letter of notification) 9,000 shares of common stock (no par). **Price**—$11.50 per share. **Proceeds**—For working capital. **Office** — 103 E. Main St., Plainville, Conn. **Underwriter** — E. T. Andrews & Co., Hartford, Conn.

**System Finance Co.**
Dec. 15 (letter of notification) $250,000 of 6% subordinated notes due Jan. 1, 1966. **Price**—At face amount. **Proceeds**—For working capital. **Office**— 610 S. Sixth St., Champaign, Ill. **Underwriter** — Hurd, Clegg & Co., Champaign, Ill.

**Tampa Electric Co. (2/3)**
Jan. 7 filed 240,000 shares of common stock. **Price**—To be supplied by amendment. **Proceeds**—For 1960 construction expenditures, estimated at about $25,000,000. **Office**—111 North Dale Mabry Highway, Tampa, Fla. **Underwriter**—Stone & Webster Securities Corp., New York City.

● **Tayco Developments, Inc. (2/8)**
Dec. 23 filed 5,390 shares of common stock to be offered for subscription by common stockholders at the rate of ten-seventy-fifths of a share for each share held. **Price** —$28.75 per share. **Proceeds**—For working capital and to secure additional patents on present inventions, and to continue and expand research and development work in the field of liquid compressibility devices and other areas. **Office**—188 Webster St., North Tonawanda, N. Y. **Underwriter**—C. E. Stoltz & Co., New York.

● **Taylor Devices, Inc. (2/8)**
Dec. 23 filed 18,705 shares of common stock to be offered for subscription by common stockholders on the basis of six-tenths of one share for each share held. **Price** —$28.75 per share. **Proceeds** — To repay a short-term loan, for additional working capital, and to establish expanded executive sales and manufacturing personnel and to continue research and development, and the balance to lease or purchase additional factory and office space. **Office**—188 Webster St., North Tonawanda, N. Y. **Underwriter**—C. E. Stoltz & Co., New York.

● **Telechrome Manufacturing Corp. (2/1)**
Nov. 16 filed $750,000 of 6% convertible subordinated debentures due 1969. A presently undetermined number of common shares will accompany the debentures. **Price**—At 100% of principal amount. **Proceeds**—For general corporate purposes including expansion and debt reduction. **Office**—Amityville, L. I., N. Y. **Underwriters** —Amos Treat & Co., Inc., and Wm. Stix Wasserman & Co., Inc., both of New York City.

● **Tennessee Gas Transmission Co. (2/16)**
Jan. 19 filed 1,500,000 shares of common stock (par $5). **Price**—To be supplied by amendment. **Proceeds**—To retire short-term notes, with the balance to general funds. **Office**—Houston, Texas. **Underwriters**—Stone & Webster Securities Corp. and White, Weld & Co., both of New York City.

● **Tenney Engineering, Inc.**
Dec. 18 filed $500,000 of 6½% convertible subordinated debentures, due January, 1970, and 25,000 shares of common stock. **Prices**—For the debentures: at 100% of principal amount; for the stock, to be supplied by amendment. **Proceeds** — For reduction of indebtedness, moving issuer's coil business from Michigan to North Carolina, and working capital. **Office**—1090 Springfield Road, Union, N. J. **Underwriter**—Milton D. Blauner & Co., Inc. **Offering**—Expected any day.

**Texas Electric Service Co. (2/9)**
Jan. 6 filed $12,000,000 of sinking fund debentures, due 1985. **Proceeds**—For construction. **Underwriter**—To be determined by competitive bidding. **Probable bidders:** Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Smith Inc.; Eastman Dillon, Union Securities & Co.; Kuhn, Loeb & Co.; Blyth & Co., Inc. and Lehman Brothers.

★ **Texize Chemicals, Inc. (2/23)**
Jan. 22 filed 174,576 shares of common stock, of which 88,000 shares are to be offered for the account of the present holders thereof and the remaining 86,576 shares are to be offered for subscription by stockholders at the rate of one additional share for each eight shares held. **Price**—To be supplied by amendment. **Proceeds**—For general corporate purposes. **Office**—Greenville, S. C. **Underwriter**—Kidder, Peabody & Co., New York, N. Y.

**Transit Freeze Corp.**
Dec. 3 (letter of notification) 75,000 shares of common stock (par 10 cents). **Price**—$4 per share. **Proceeds**—For expenses incidental to the development of a frozen food trucking business. **Office**—152 W. 42nd Street, New York City. **Underwriter** — Jerome Robbins & Co., 82 Wall Street, on a "best efforts" basis. **Offering**—Expected in February.

★ **Triumph Pool, Inc.**
Jan. 13 (letter of notification) 150,000 shares of common stock (par 10 cents). **Price**—$2 per share. **Proceeds** —To pay off accounts and notes payable; mortgage payments and for working capital. **Office** — 15 William Street, New York 5, N. Y. **Underwriter**—None.

**Turner Timber Corp.**
Nov. 12 filed $2,000,000 of 6¾% convertible debentures, due 1969, and 250,000 shares of common stock (par one cent), to be offered in units consisting of $1,000 principal amount of debentures and 125 shares of stock. **Price**—$1,001.25 (plus accrued interest from 12/15/59) per unit. **Proceeds**—For the acquisition of coal and timber properties, with any balance to be added to working capital. **Office**—60 E. 42nd Street, New York City. **Underwriter** —Frank P. Hunt & Co., Inc., Rochester, N. Y.

● **U. S. Polymeric Chemicals, Inc. (2/16)**
Jan. 14 filed 71,090 shares of outstanding common stock. **Price** — To be supplied by amendment. **Proceeds** — To selling stockholders. **Office**—Stamford, Conn. **Underwriter**—Dominick & Dominick, New York City.

● **Universal Transistor Products Corp. (2/15)**
Dec. 18 (letter of notification) 150,000 shares of common stock (par 10 cents). **Price**—$2 per share. **Proceeds** — For general corporate purposes. **Office** — 36 Sylvester Street, Westbury, L. I., N. Y. **Underwriters**—Michael G. Kletz & Co., Inc. and Amos Treat & Co., Inc., New York, N. Y.

● **West Florida Natural Gas Co. (1/29)**
Dec. 21 filed $837,200 of subordinated income debentures and warrants to buy 25,116 shares of class A common stock ($1 par), to be offered first to stockholders in units of $100 of debentures with warrants for the purchase of three shares of common at $100; rights expire Feb. 19. **Price**—To be supplied by amendment. **Proceeds** —For general corporate purposes. **Office**—Maple & Third Streets, Panama City, Fla. **Underwriters**—White, Weld & Co., New York City, and Pierce, Carrison, Wulbern, Inc., Jacksonville, Fla. (jointly).

**Young Manufacturing Co.**
Dec. 16 (letter of notification) 150,000 shares of common stock (par $1). **Price**—$2 per share. **Proceeds**—To increase inventories, expand manufacturing facilities and for working capital. **Office**—1601 W. Lincolnway, Cheyenne, Wyo. **Underwriter** — Atlas Securities Co., Cheyenne, Wyo.

# Prospective Offerings

**Alabama Power Co. (4/7)**
Dec. 9 it was announced that this company plans registration with the Securities and Exchange Commission of $19,500,000 of 30-year first mortgage bonds. **Underwriter** —To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Lehman Brothers; The First Boston Corp.; Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Eastman Dillon, Union Securities & Co.; Equitable Securities Corp. and Drexel & Co. (jointly). **Information Meeting** —Scheduled for April 4, 1960. **Bids**—Expected to be received on April 7. **Registration**—Scheduled for March 4.

**American Jet School, Inc., Lansing, Mich.**
Aug. 31 it was announced that the corporation plans to issue and sell 100,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Proceeds**—For expansion of present Michigan and Ohio sales force to a national one, and introduction of new courses and resident study schools. **Business**—In correspondence school business. **Office**—1609 Kalamazoo St., Lansing, Mich. **Underwriter**—In New York, to be named. The company is presently negotiating with two New York underwriters.

**(J. I.) Case Credit Corp.**
It was reported in early January that the company is planning new financing in a few months, possibly through privately-placed notes. **Office**—700 State Street, Racine, Wis.

★ **Central Illinois Light Co. (3/15)**
Jan. 19 announced plans to file with the Illinois Commerce Commission for issuance of $14,000,000 of first mortgage bonds, to be sold at competitive bidding. **Proceeds**—For 1960 construction, expected to total about $17,000,000. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp.; Kidder, Peabody & Co.; Eastman Dillon, Union Securities & Co.; Merrill Lynch, Pierce, Fenner & Smith, and Stone & Webster Securities (jointly). **Bids**—Scheduled to be received March 15 at 11:00 a.m. (EST) at the offices of Commonwealth Services, Inc., 300 Park Avenue, New York City.

**Coffee House, Inc., Lansing, Mich.**
Aug. 31 it was announced company plans to issue and sell 100,000 shares of common stock (par 10 cents). **Price** —To be supplied by amendment. **Proceeds** — To build chain of coffee houses, establish commissaries and for general corporate purposes. **Office** — 1500 Clifton Ave., Lansing, Mich. **Underwriter**—In New York, to be named.

**Consolidated Research & Mfg. Corp.**
Dec. 16 it was reported that this firm, founded last August as a Delaware corporation, plans its first public financing in the form of a common stock offering scheduled for next spring. **Business**—The company produes spray containers to combat ice, snow, and fog. **Proceeds**—For expansion. **Office**—1184 Chapel St., New Haven, Conn. **President**—Marvin Botwick.

● **Dayton Power & Light Co. (2/25)**
Dec. 30 it was announced that the company plans the filing of about $25,000,000 of 30-year first mortgage bonds. **Proceeds**—Will be used to repay $18,000,000 of temporary bank loans and to defray part of the cost of the company's 1960 construction program. **Underwriter** —To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co.; Eastman Dillon, Union Securities & Co. and Salomon Bros. & Hutzler (jointly); Merrill Lynch, Pierce, Fenner & Smith Inc. and White, Weld & Co. (jointly); Lehman Brothers, Blyth & Co., Inc. and The First Boston Corp. (jointly); Morgan Stanley & Co. and W. E. Hutton & Co. (jointly).

**Duquesne Light Co. (2/24)**
Dec. 2 it was announced by Philip A. Fleger, President and Board Chairman, that the utility's sole financing in 1960 is expected to consist of $20,000,000 of non-convertible debentures. **Underwriter** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Eastman Dillon, Union Securities & Co.; A. C. Allyn & Co., Inc. and Ladenburg, Thalmann & Co. (jointly); White, Weld & Co.; The First Boston Corp. and Glore, Forgan & Co. (jointly); Blyth & Co., Inc.; Drexel & Co. and Equitable Securities Corp. (jointly).

**Englehard Industries, Inc.**
Dec. 2 it was reported that this Newark, N. J., corporation might make an announcement in the next two weeks concerning a forthcoming issue of common stock. Although no confirmation has been forthcoming, it is understood that auditors visited the company in late December. Registration is still believed likely in the near future.

**First National Bank of Miami, Fla.**
Sept. 14 it was announced stockholders have approved a proposed offering to stockholders of 150,000 additional shares of capital stock (par $10) on the basis of one new share for each four shares held. **Price**—$40 per share. **Proceeds**—To increase capital and surplus. **Underwriter**—None.

**Georgia Power Co. (11/3)**
Dec. 9 it was announced that the company plans registration of $12,000,000 of 30-year first mortgage bonds with the SEC. **Underwriter** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Equitable Securities Corp., and Eastman Dillon, Union Securities & Co. (jointly); Blyth & Co., Inc., and Kidder, Peabody & Co. (jointly); The First Boston Corp. **Registration**—Scheduled for Sept. 26. **Bids**—Expected to be received on Nov. 3. **Information Meeting**—Scheduled for Oct. 31.

**Gulf Power Co. (7/7)**
Dec. 9 it was announced that the company plans registration with the SEC of $5,000,000 first mortgage 30-year bonds. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Equitable Securities Corp.; Kidder, Peabody & Co., and White, Weld & Co. (jointly); Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Smith Inc.; Salomon Bros. & Hutzler, and Drexel & Co.

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*Continued from page 59*

(jointly); Eastman Dillon, Union Securities & Co. **Information Meeting**—Scheduled for July 5, 1960. **Bids**—Expected to be received on July 7. **Registration** — Scheduled for June 3.

**Gulf Power Co. (7/7)**

Dec. 9 it was announced that the company plans registration of 50,000 shares of preferred stock (par $100). **Underwriter**—To be determined by competitive bidding. Probable bidders: Harriman Ripley & Co.; Eastman Dillon, Union Securities & Co., and Salomon Bros. & Hutzler (jointly); Equitable Securities Corp.; Kidder, Peabody & Co., and White, Weld & Co. (jointly). **Information Meeting**—Scheduled for July 5, 1960. **Bids**—Expected to be received on July 7. **Registration** — Scheduled for June 3.

**Harvey Aluminum Co., Torrance, Calif.**

It was reported late last year that this firm—the old Harvey Machine Co. — is planning its initial public financing for the Spring. **Underwriters**—Kuhn, Loeb & Co. (managing) and Tucker, Anthony & R. L. Day, both of New York City.

**Hawaiian Telephone Co.**

Aug. 3 it was reported company received approval from the Territorial Public Utilities Commission to issue about $4,500,000 of new bonds. Last bond issues were placed privately.

**Independent Radio, Inc., Lansing, Mich.**

Aug. 31 it was announced company plans to issue and sell 100,000 shares of common stock (par 10 cents). **Price** —To be supplied by amendment. **Proceeds**—For acquisition of radio stations. **Business** — Radio broadcasting. **Office**—130 Shepard St., Lansing, Mich. **Underwriter**—In New York, to be named.

**Kenrich Petrochemicals, Inc.**

Jan. 20 it was reported that February registration is expected of $175,000 of convertible debentures and 55,000 shares of common stock. **Prices**—To be supplied by amendment. **Proceeds**—For the expansion of manufacturing facilities. **Office** — Maspeth, Queens, L. I., N. Y. **Underwriter** — First Philadelphia Corp., 40 Exchange Place, New York City.

**Mississippi Power Co. (3/17)**

Dec. 9 it was announced that the company plans registration of $4,000,000 of first mortgage 30-year bonds. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Merrill Lynch, Pierce, Fenner & Smith Inc.; Eastman Dillon, Union Securities & Co. and Equitable Securities Corp. (jointly). **Information Meeting**—March 14, 1960. **Bids**—Expected to be received on March 17. **Registration**—Scheduled for Feb. 11.

**National Mail Order Co., Lansing, Mich.**

Oct. 5 it was announced company plans to register an issue of 100,000 shares of common stock (par 10 cents). **Price**—To be supplied by amendment. **Proceeds**—For expansion and working capital. **Office**—130 Shepard St., Lansing, Mich. **Underwriter**—To be named later in New York State.

**Nedick's Stores, Inc.**

Nov. 12 it was reported that the company is contemplating the placing in registration of 17,000 shares of common stock. About 66% of the issue will be sold for the company's account and the remaining 34% balance will be sold for the account of a selling stockholder. **Underwriter**—Van Alstyne, Noel & Co., New York.

**★ Puget Sound Power & Light Co.**

Jan. 15 the Federal Power Commission announced they had authorized the Seattle, Wash., utility to issue up to $25,000,000 in unsecured promissory notes outstanding at any one time, to be issued in varying amounts beginning Feb. 1, all such notes to mature July 31, 1961. The interest will be equal to the prime rate for New York City commercial bank loans at the time of the borrowings. **Proceeds**—To discharge all notes outstanding under a previous credit agreement, to reimburse the issuer's treasury for construction expenditures, and to provide temporary financing for future construction.

**South Carolina Electric & Gas Co.**

June 22, S. C. McMeekin, President, announced plans to sell approximately $8,000,000 of bonds in December, 1959. **Proceeds**—To repay bank loans incurred for current construction program. Previous issues have been placed privately. **Note**—On Dec. 31 Mr. McMeekin told this newspaper he does not know whether the bonds will be placed privately. He expects them to be sold this summer; the precise timing will be subject to market conditions.

**Southern Electric Generating Co. (6/2)**

Dec. 9 it was announced that this company plans registration with the SEC of $40,000,000 of 30-year first mortgage bonds. **Underwriter** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Smith Inc., and Blyth & Co., Inc. (jointly); Morgan Stanley & Co.; White, Weld & Co. and Kidder, Peabody & Co. (jointly); Eastman Dillon, Union Securities & Co.; Equitable Securities Corp., and Drexel & Co. (jointly); The First Boston Corp. **Information Meeting**—Scheduled for May 31, 1960. **Bids**—Expected to be received on June 2. **Registration**—Scheduled for April 29.

**★ Tennessee Valley Authority (7/1)**

Jan. 20 announced that, pursuant to August, 1959, authorization from Congress to have $750,000,000 of revenue bonds outstanding at any one time, it plans its first public offering, expected to be about $50,000,000, for July 1, 1960. Probable bidders: First Boston Corp. (managing), Salomon Bros. & Hutzler; Eastman Dillon, Union Securities & Co., and Lazard Freres & Co.

**Transcontinental Gas Pipe Line Corp.**

Sept. 29 it was announced that the company plans to come to market twice in 1960 with the sale of first mortgage bonds, and common and preferred stock. **Proceeds**—To raise permanent funds for the financing of its 1960 expansion program. **Office**—Houston, Texas.

**Transval Electronics Corp.**

R. F. Downer, an official, announced on Jan. 8 that Norman C. Roberts Co., San Diego 1, Calif., and the Los Angeles office of Sutro & Co. (home office: San Francisco) "may be contacted regarding any and all inquiries with respect to the issuance and sale of Transval stock."

# OUR REPORTER'S REPORT

Time and again, and with very few exceptions, it has been proved that investors are decidedly partial to new corporate issues which carry a protective clause against an early "call" of the issue.

Such offerings have met much better reception when placed on the market than have the general run of straight debt issues carrying no such protective clause.

**This guarantee against sudden loss of income through possible corporate decision to refinance a given issue should the money market experience a reversal seems to take on added stature in this year because of the national elections next Fall.**

The five-year, non-callable clause, it is noted, would safeguard the investor through the first term of a new administration which makes it doubly-important should it involve a shift in political parties, and a right-about-face on monetary and credit policies.

**Right now, however, the investment markets appear to be flattening out a trifle after a prolonged period of rising yields. The Treasury market, with the government expected to announce, perhaps today, terms for refinancing some $12.3 billion of maturities, has been behaving a trifle better.**

Possibly some of the reason for the "ironing out" may be found in indications that Congress is really taking a look at the ceiling of 4¼% fixed for Treasury issues of longer than five years, and might be inclined to do something about loosening up this noose which has hobbled any attempt at stretching out the debt.

### Reaching a Little?

Investment bankers, presumably stirred by the firmer tone around the market place, have been showing a tendency to "fill-out" their bids for new issues. It will be interesting to see how buyers react to the tendency of bankers to follow the trend in that direction.

**It was noted that this week Southern California Edison Co. drew a top bid of 100.46 for its $30 million of first and refunding bonds to carry a 5% coupon rate. It was interesting to note that the bid of the runners-up was only three cents per $100, or 30 cents per $1,000 piece, below that of the successful group.**

Reoffering price was fixed at 101.143 for a yield of 4.92% which was slightly under the yield of 4.94% set for Connecticut Light & Power Co.'s Triple A rated 5s brought out a week ago.

### No Big Rush Ahead

January reinvestment demand had no tendency to create any rush on the part of corporate borrowers into the market. On the contrary things have been relatively quiet and evidently will continue that way next week.

Only two issues of any consequence are in the cards for that period. Allegheny Airlines Inc. has $5.5 million of debentures due out on Monday.

On Wednesday, Tampa Electric Co. is scheduled to offer, through bankers, 240,000 shares of common stock. Of course, a better tone in the equity market would help to assure this offering on time.

### Bell Units Plan Issues

Shaping up as the most ambitious customers of the money capital market are the operating units of the Bell System, it appears. Two more of this family are shaping up substantial new offerings in the months ahead.

**Mountain States Telephone & Telegraph Co. has authorized $40 million of new debentures which, it is expected, will reach the market along about the middle of April.**

And Pacific Telephone & Telegraph Co. has registered for sale $72 million of 33-year debentures which will be up for competitive bids about the middle of next month.

# Z. J. DiPasquale Opens

Zeno J. DiPasquale is engaging in a securities business from offices at 400 Bleecker Street, New York City.

# Lehman Brothers Admit Three


Wm. H. Osborn, Jr.


Raymond R. Rusmisel


Andrew G. C. Sage II

William H. Osborn, Jr., Raymond R. Rusmisel and Andrew G. C. Sage II, have been admitted to general partnership in Lehman Brothers, 1 William Street, New York City, members of the New York Stock Exchange. All have been associated with the firm for many years.

# Warns New York Securities Men To Register Now

More than 30% of the brokers, dealers and securities salesmen doing business in New York State face prosecution unless they comply with a new amendment to the State securities law which required them to register with the Department of Law before Jan. 5, 1960, Attorney General Louis J. Lefkowitz warned on Jan. 22.


Louis J. Lefkowitz

Attorney General Lefkowitz said that although many persons and firms who have failed to register may have been unaware of the new law, those who fail to register are subject to prosecution.

Violations of the Martin Act, the State securities law carry a penalty of a $500 fine or a year in prison or both.

The Attorney General said that "where my office uncovers any willful violations, prompt action will be taken to enjoin the offenders from engaging in the securities business in New York State.

"The securities business bears directly upon the public interest. Those who flout the laws and regulations governing them cannot be permitted to continue to do business in an industry where public trust and confidence are essential."

### Aimed at the Unscrupulous

The new law was recommended to the 1959 Legislature by Attorney General Lefkowitz in order to add a new weapon in his drive to rid the securities business of a fringe element of unscrupulous salesmen who give a black eye to the legitimate dealer and salesman. Previously, the law only required the registration of brokers and dealers with the Attorney General's office. Under the new law, such brokers and dealers must re-register.

Attorney General Lefkowitz pointed out that investigations conducted by his office have revealed that many persons with criminal records have infiltrated the securities field. The new law requires brokers, dealers and salesmen to register every four years with the Department of Law and to execute a statement setting forth their full background and experience and all details relating to any prior criminal record.

The enactment of the new law was strongly supported by the New York Stock Exchange, the American Stock Exchange, and the National Association of Securities Dealers.

# Warren Ponvert With Halle & Stieglitz

Halle & Stieglitz, 52 Wall Street, New York City, members of the New York Stock Exchange, have announced that Warren N. Ponvert has become associated with their firm as a registered representative.

# Charles Plohn & Co. Offers Corrosion Control

A public offering of 60,000 shares of capital stock of Corrosion Control Company, Inc. is being made today (Jan. 28) by Charles Plohn & Co. The stock is priced at $5 per share.

Net proceeds from the sale, approximately $240,000, will be used for acquisition of plant facilities, advertising and other sales promotion, repayment of all company loans, training additional sales engineers, and the remainder will be added to working capital.

The company, formed in 1954, is engaged in the formulation, production and application of corrosion resistant plastic and rubber coating materials. The company formed Tower Production Services, Inc., as a wholly-owned subsidary, to provide a complete service for reconditioning and maintenance of water-cooling towers for central air-conditioning systems of large industrial and commercial buildings.

# Indications of Current Business Activity

**The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:**

| | Date | Latest Week | Previous Week | Month Ago | Year Ago |
|---|---|---|---|---|---|
| **AMERICAN IRON AND STEEL INSTITUTE:** | | | | | |
| Indicated Steel operations (per cent capacity) | Jan. 30 | §95.4 | *95.7 | 96.3 | 76.9 |
| Equivalent to— | | | | | |
| Steel ingots and castings (net tons) | Jan. 30 | §2,717,000 | *2,727,000 | 2,726,000 | 2,178,000 |
| **AMERICAN PETROLEUM INSTITUTE:** | | | | | |
| Crude oil and condensate output—daily average (bbls. of 42 gallons each) | Jan. 15 | 7,146,410 | 7,111,925 | 7,138,775 | 7,087,285 |
| Crude runs to stills—daily average (bbls.) | Jan. 15 | ¶8,302,000 | 8,396,000 | 8,071,000 | 8,129,000 |
| Gasoline output (bbls.) | Jan. 15 | 29,084,000 | 29,230,000 | 29,331,000 | 28,488,000 |
| Kerosene output (bbls.) | Jan. 15 | 2,724,000 | 2,731,000 | 2,667,000 | 3,234,000 |
| Distillate fuel oil output (bbls.) | Jan. 15 | 13,714,000 | 13,821,000 | 13,018,000 | 14,751,000 |
| Residual fuel oil output (bbls.) | Jan. 15 | 7,127,000 | 7,240,000 | 6,929,000 | 7,629,000 |
| Stocks at refineries, bulk terminals, in transit, in pipe lines— | | | | | |
| Finished and unfinished gasoline (bbls.) at | Jan. 15 | 196,514,000 | 193,948,000 | 182,838,000 | 190,748,000 |
| Kerosene (bbls.) at | Jan. 15 | 26,583,000 | *26,852,000 | 27,195,000 | 23,235,000 |
| Distillate fuel oil (bbls.) at | Jan. 15 | 138,539,000 | *144,134,000 | 156,195,000 | 109,095,000 |
| Residual fuel oil (bbls.) at | Jan. 15 | 51,263,000 | *52,358,000 | 52,476,000 | 59,368,000 |
| **ASSOCIATION OF AMERICAN RAILROADS:** | | | | | |
| Revenue freight loaded (number of cars) | Jan. 16 | 605,757 | 591,515 | 615,365 | 586,342 |
| Revenue freight received from connections (no. of cars)— | Jan. 16 | 554,377 | 503,618 | 565,697 | 532,667 |
| **CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:** | | | | | |
| Total U. S. construction | Jan. 21 | $372,900,000 | $415,600,000 | $408,100,000 | $388,080,000 |
| Private construction | Jan. 21 | 203,500,000 | 225,900,000 | 213,300,000 | 181,677,000 |
| Public construction | Jan. 21 | 169,400,000 | 189,700,000 | 194,800,000 | 206,403,000 |
| State and municipal | Jan. 21 | 100,800,000 | 147,100,000 | 138,200,000 | 109,377,000 |
| Federal | Jan. 21 | 68,600,000 | 42,600,000 | 56,600,000 | 97,026,000 |
| **COAL OUTPUT (U. S. BUREAU OF MINES):** | | | | | |
| Bituminous coal and lignite (tons) | Jan. 16 | 8,825,000 | 9,000,000 | 9,385,000 | 8,290,000 |
| Pennsylvania anthracite (tons) | Jan. 16 | 440,000 | 401,000 | 435,000 | 587,000 |
| **DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1947-49 AVERAGE = 100** | Jan. 16 | 120 | 132 | 318 | 116 |
| **EDISON ELECTRIC INSTITUTE:** | | | | | |
| Electric output (in 000 kwh.) | Jan. 23 | 14,523,000 | 14,236,000 | 13,349,000 | 13,394,000 |
| **FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET, INC.** | Jan. 21 | 302 | 292 | 195 | 296 |
| **IRON AGE COMPOSITE PRICES:** | | | | | |
| Finished steel (per lb.) | Jan. 19 | 6.196c | 6.196c | 6.196c | 6.196c |
| Pig iron (per gross ton) | Jan. 19 | $66.41 | $66.41 | $66.41 | $66.41 |
| Scrap steel (per gross ton) | Jan. 19 | $41.83 | $41.50 | $47.17 | $41.17 |
| **METAL PRICES (E. & M. J. QUOTATIONS):** | | | | | |
| Electrolytic copper— | | | | | |
| Domestic refinery at | Jan. 20 | 33.225c | 33.450c | 33.825c | 28.625c |
| Export refinery at | Jan. 20 | 31.700c | 31.100c | 30.650c | 27.850c |
| Lead (New York) at | Jan. 20 | 12.000c | 12.000c | 12.500c | 13.000c |
| Lead (St. Louis) at | Jan. 20 | 11.800c | 11.800c | 12.300c | 12.800c |
| ‡Zinc (delivered) at | Jan. 20 | 13.500c | 13.500c | 13.000c | 12.000c |
| Zinc (East St. Louis) at | Jan. 20 | 13.000c | 13.000c | 12.500c | 11.500c |
| Aluminum (primary pig. 99.5%) at | Jan. 20 | 26.000c | 26.000c | 25.300c | 24.700c |
| Straits tin (New York) at | Jan. 20 | 100.375c | 99.500c | 99.125c | 99.750c |
| **MOODY'S BOND PRICES DAILY AVERAGES:** | | | | | |
| U. S. Government Bonds | Jan. 26 | 81.13 | 81.27 | 80.42 | 85.00 |
| Average corporate | Jan. 26 | 83.28 | 83.28 | 83.66 | 89.78 |
| Aaa | Jan. 26 | 87.32 | 87.32 | 87.59 | 93.82 |
| Aa | Jan. 26 | 85.20 | 85.07 | 85.07 | 92.35 |
| A | Jan. 26 | 83.03 | 83.28 | 83.53 | 89.78 |
| Baa | Jan. 26 | 77.97 | 78.20 | 78.66 | 83.66 |
| Railroad Group | Jan. 26 | 81.05 | 81.29 | 81.29 | 88.40 |
| Public Utilities Group | Jan. 26 | 83.15 | 83.28 | 83.66 | 89.37 |
| Industrials Group | Jan. 26 | 85.59 | 85.59 | 85.85 | 91.62 |
| **MOODY'S BOND YIELD DAILY AVERAGES:** | | | | | |
| U. S. Government Bonds | Jan. 26 | 4.47 | 4.44 | 4.55 | 3.93 |
| Average corporate | Jan. 26 | 4.92 | 4.92 | 4.89 | 4.43 |
| Aaa | Jan. 26 | 4.61 | 4.61 | 4.59 | 4.15 |
| Aa | Jan. 26 | 4.77 | 4.78 | 4.78 | 4.25 |
| A | Jan. 26 | 4.94 | 4.92 | 4.90 | 4.43 |
| Baa | Jan. 26 | 5.36 | 5.34 | 5.30 | 4.89 |
| Railroad Group | Jan. 26 | 5.10 | 5.08 | 5.08 | 4.53 |
| Public Utilities Group | Jan. 26 | 4.93 | 4.92 | 4.89 | 4.46 |
| Industrials Group | Jan. 26 | 4.74 | 4.74 | 4.72 | 4.30 |
| **MOODY'S COMMODITY INDEX** | Jan. 26 | 380.1 | 380.5 | 374.8 | 385.0 |
| **NATIONAL PAPERBOARD ASSOCIATION:** | | | | | |
| Orders received (tons) | Jan. 16 | 314,647 | 293,514 | 268,455 | 269,666 |
| Production (tons) | Jan. 16 | 324,592 | 261,488 | 317,809 | 305,778 |
| Percentage of activity | Jan. 16 | 97 | 80 | 94 | 93 |
| Unfilled orders (tons) at end of period | Jan. 16 | 447,667 | 456,855 | 401,194 | 379,895 |
| **OIL, PAINT AND DRUG REPORTER PRICE INDEX— 1949 AVERAGE = 100** | Jan. 22 | 111.62 | 111.46 | 111.64 | 111.55 |
| **ROUND-LOT TRANSACTIONS FOR ACCOUNT OF MEMBERS, EXCEPT ODD-LOT DEALERS AND SPECIALISTS** | | | | | |
| Transactions of specialists in stocks in which registered— | | | | | |
| Total purchases | Jan. 1 | 2,070,460 | 1,798,999 | 2,980,270 | 2,275,860 |
| Short sales | Jan. 1 | 220,810 | 229,840 | 391,030 | 352,000 |
| Other sales | Jan. 1 | 1,802,270 | 1,504,956 | 2,485,800 | 1,927,030 |
| Total sales | Jan. 1 | 2,023,080 | 1,734,796 | 2,876,830 | 2,279,030 |
| Other transactions initiated off the floor— | | | | | |
| Total purchases | Jan. 1 | 331,530 | 219,620 | 560,760 | 425,310 |
| Short sales | Jan. 1 | 14,810 | 22,200 | 24,210 | 35,600 |
| Other sales | Jan. 1 | 297,540 | 272,830 | 485,750 | 384,440 |
| Total sales | Jan. 1 | 312,350 | 235,030 | 509,960 | 420,040 |
| Other transactions initiated on the floor— | | | | | |
| Total purchases | Jan. 1 | 717,825 | 570,235 | 994,610 | 772,710 |
| Short sales | Jan. 1 | 86,660 | 59,920 | 129,030 | 130,840 |
| Other sales | Jan. 1 | 619,383 | 506,944 | 911,388 | 705,307 |
| Total sales | Jan. 1 | 706,043 | 566,864 | 1,040,418 | 836,147 |
| Total round-lot transactions for account of members— | | | | | |
| Total purchases | Jan. 1 | 3,119,815 | 2,588,854 | 4,535,640 | 3,473,880 |
| Short sales | Jan. 1 | 322,280 | 311,960 | 544,270 | 518,440 |
| Other sales | Jan. 1 | 2,719,193 | 2,224,730 | 3,882,938 | 3,016,777 |
| Total sales | Jan. 1 | 3,041,473 | 2,536,690 | 4,427,208 | 3,535,217 |
| **STOCK TRANSACTIONS FOR ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON N. Y. STOCK EXCHANGE — SECURITIES EXCHANGE COMMISSION** | | | | | |
| Odd-lot sales by dealers (customers' purchases)—† | | | | | |
| Number of shares | Jan. 1 | 1,535,093 | 1,269,679 | 1,997,723 | 1,553,248 |
| Dollar value | Jan. 1 | $77,675,354 | $65,892,943 | $103,254,885 | $83,646,908 |
| Odd-lot purchases by dealers (customers' sales)— | | | | | |
| Number of orders—Customers' total sales | Jan. 1 | 1,350,698 | 1,184,808 | 1,767,201 | 1,436,963 |
| Customers' short sales | Jan. 1 | 4,306 | 4,018 | 8,346 | 5,683 |
| Customers' other sales | Jan. 1 | 1,346,392 | 1,180,790 | 1,758,855 | 1,431,280 |
| Dollar value | Jan. 1 | $63,931,822 | $65,892,943 | $85,772,380 | $71,023,101 |
| Round-lot sales by dealers— | | | | | |
| Number of shares—Total sales | Jan. 1 | 322,730 | 300,210 | 464,870 | 409,010 |
| Short sales | Jan. 1 | ------ | ------ | ------ | ------ |
| Other sales | Jan. 1 | 322,730 | 300,210 | 464,870 | 409,010 |
| Round-lot purchases by dealers— Number of shares | Jan. 1 | 510,590 | 396,240 | 707,850 | 530,290 |
| **TOTAL ROUND-LOT STOCK SALES ON THE N. Y. STOCK EXCHANGE AND ROUND-LOT STOCK TRANSACTIONS FOR ACCOUNT OF MEMBERS (SHARES):** | | | | | |
| Total round-lot sales— | | | | | |
| Short sales | Jan. 1 | 372,180 | 357,020 | 672,170 | 629,810 |
| Other sales | Jan. 1 | 13,278,090 | 11,554,720 | 18,043,840 | 14,917,080 |
| Total sales | Jan. 1 | 13,650,270 | 11,911,740 | 18,716,010 | 15,546,890 |
| **WHOLESALE PRICES, NEW SERIES — U. S. DEPT. OF LABOR — (1947-49 = 100):** | | | | | |
| Commodity Group— | | | | | |
| All commodities | Jan. 19 | 119.3 | *119.2 | 118.8 | 119.6 |
| Farm products | Jan. 19 | 86.6 | *86.7 | 84.9 | 92.3 |
| Processed foods | Jan. 19 | 106.1 | *105.5 | 110.6 | 109.2 |
| Meats | Jan. 19 | 92.5 | *91.5 | 88.1 | 103.3 |
| All commodities other than farm and foods | Jan. 19 | 128.7 | *128.7 | 128.9 | 127.4 |

*Revised figure. §Includes 949,000 barrels of foreign crude runs. ¶Based on new annual capacity of 148,570,970 tons as of Jan. 1, 1960 as against Jan. 1, 1959 basis of 147,633,670 tons. †Number of orders not reported since introduction of Monthly Investment Plan. ‡Prime Western Zinc sold on delivered basis at centers where freight from East St. Louis exceeds one-half cent a pound.

| | Latest Month | Previous Month | Year Ago |
|---|---|---|---|
| **ALUMINUM (BUREAU OF MINES):** | | | |
| Production of primary aluminum in the U. S. (in short tons)—Month of October | 173,742 | 168,206 | 139,836 |
| Stocks of aluminum (short tons) end of September | 131,124 | 109,065 | 124,274 |
| **AMERICAN GAS ASSOCIATION—** | | | |
| For month of November: | | | |
| Total gas sales (M therms) | 7,436,200 | 5,931,100 | 6,551,200 |
| Natural gas sales (M therms) | 7,251,700 | 5,818,500 | 6,361,800 |
| Manufact'd & mixed gas sales (M therms) | 184,500 | 112,600 | 189,400 |
| **AMERICAN IRON AND STEEL INSTITUTE:** | | | |
| Steel ingots and steel for castings, produced (net tons)—Month of December: | 11,980,000 | 7,267,607 | 8,710,522 |
| Shipments of steel products (net tons)—Month of November: | 4,841,621 | 1,282,664 | 5,186,881 |
| **AMERICAN RAILWAY CAR INSTITUTE—** | | | |
| Month of December: | | | |
| Orders for new freight cars | 10,560 | 2,624 | 3,706 |
| New freight cars delivered | 3,032 | 2,191 | 2,621 |
| Backlog of cars on order and undelivered (end of month) | 43,870 | 36,555 | 27,596 |
| **BANKER'S DOLLAR ACCEPTANCES OUTSTANDING — FEDERAL RESERVE BANK OF NEW YORK**—As of December 3: | | | |
| Imports | $357,061,000 | $354,889,000 | $254,362,000 |
| Exports | 309,418,000 | 283,282,000 | 349,303,000 |
| Domestic shipments | 35,382,000 | 29,269,000 | 15,057,000 |
| Domestic warehouse credits | 126,529,000 | 89,321,000 | 229,289,000 |
| Dollar exchange | 73,680,000 | 45,601,000 | 82,920,000 |
| Based on goods stored and shipped between foreign countries | 249,087,000 | 226,457,000 | 262,667,000 |
| Total | 1,151,157,000 | 1,028,819,000 | 1,193,598,000 |
| **BANK DEBITS—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—** | | | |
| Month of December (000's omitted) | $261,121,000 | $217,167,000 | $238,985,000 |
| **BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR**—Month of November (in millions): | | | |
| Total new construction | 4,436 | 4,889 | 4,503 |
| Private construction | 3,296 | 3,459 | 3,100 |
| Residential buildings (nonfarm) | 1,912 | 2,038 | 1,788 |
| New dwelling units | 1,453 | 1,564 | 1,375 |
| Additions and alterations | 387 | 406 | 354 |
| Nonhousekeeping | 72 | 68 | 59 |
| Nonresidential buildings | 790 | 766 | 754 |
| Industrial | 189 | 167 | 170 |
| Commercial | 351 | 348 | 331 |
| Office buildings and warehouses | 168 | 168 | 171 |
| Stores, restaurants, and garages | 183 | 180 | 160 |
| Other nonresidential buildings | 250 | 251 | 253 |
| Religious | 82 | 84 | 81 |
| Educational | 46 | 45 | 53 |
| Hospital and institutional | 49 | 48 | 48 |
| Social and recreational | 49 | 50 | 42 |
| Miscellaneous | 24 | 24 | 29 |
| Farm construction | 136 | 155 | 107 |
| Public utilities | 436 | 477 | 434 |
| Railroad | 29 | 27 | 21 |
| Telephone and telegraph | 76 | 87 | 72 |
| Other public utilities | 331 | 363 | 341 |
| All other private | 22 | 23 | 17 |
| Public construction | 1,140 | 1,430 | 1,403 |
| Residential buildings | 60 | 63 | 86 |
| Nonresidential buildings | 319 | 367 | 386 |
| Industrial | 30 | 33 | 36 |
| Educational | 187 | 217 | 229 |
| Hospital and institutional | 32 | 34 | 36 |
| Administrative and sevice | 36 | 44 | 48 |
| Other nonresidential buildings | 34 | 39 | 37 |
| Military facilities | 121 | 130 | 166 |
| Highways | 370 | 568 | 507 |
| Sewer and water systems | 118 | 126 | 117 |
| Sewer | 73 | 78 | 72 |
| Water | 45 | 48 | 45 |
| Public service enterprises | 44 | 54 | 36 |
| Conservation and development | 93 | 105 | 89 |
| All other public | 15 | 17 | 16 |
| **COAL EXPORTS (BUREAU OF MINES)—** | | | |
| Month of November: | | | |
| U. S. exports of Pennsylvania anthracite (net tons) | 212,891 | 179,911 | 198,440 |
| To North and Central America (net tons) | 205,350 | 169,806 | 161,200 |
| To Europe (net tons) | 7,541 | 9,492 | 27,392 |
| To Asia (net tons) | ------ | 613 | ------ |
| To South America (net tons) | ------ | ------ | 9,848 |
| Undesignated | ------ | ------ | ------ |
| **COAL OUTPUT (BUREAU OF MINES)**—Month of December: | | | |
| Bituminous coal and lignite (net tons) | 39,940,000 | 35,330,000 | 39,799,000 |
| Pennsylvania anthracite (net tons) | 1,849,000 | *1,763,000 | 1,959,000 |
| **COKE (BUREAU OF MINES)—** | | | |
| Month of November: | | | |
| Production (net tons) | 4,335,292 | 1,839,945 | 5,255,600 |
| Oven coke (net tons) | 4,270,395 | 1,800,931 | 5,183,200 |
| Beehive coke (nets tons) | 64,897 | 39,014 | 72,400 |
| Oven coke stock at end of month (net tons) | 4,994,176 | 4,829,858 | 3,881,550 |
| **COPPER INSTITUTE—** | | | |
| For month of December: | | | |
| Copper production in U. S. A.— | | | |
| Crude (tons of 2,000 pounds) | 31,845 | *28,061 | 105,552 |
| Refined (tons of 2,000 pounds) | 46,302 | 37,299 | 146,978 |
| Deliveries to fabricators— | | | |
| In U. S. A. (tons of 2,000 pounds) | 90,123 | 83,626 | 116,310 |
| Refined copper stocks at end of period (tons of 2,000 pounds) | 64,763 | 74,642 | 80,722 |
| **FABRICATED STRUCTURAL STEEL (AMERICAN INSTITUTE OF STEEL CONSTRUCTIONS)**—Month of December: | | | |
| Contracts closed (tonnage)—estimated | 366,125 | 260,190 | 196,510 |
| Shipments (tonnage)—estimated | 235,688 | 180,772 | 266,600 |
| **TIN—CONSUMPTION OF PRIMARY AND SECONDARY TIN IN THE UNITED STATES (BUREAU OF MINES)**—Month of October (in long tons): | | | |
| Stocks beginning of period | 36,125 | 33,370 | 30,610 |
| Receipts | 3,985 | 7,730 | 6,550 |
| Supply | 40,110 | 41,100 | 37,160 |
| Stocks at end of period | 35,090 | 36,125 | 30,000 |
| Total processed | 5,020 | 4,975 | 7,160 |
| Intercompany scrap transactions | 100 | 150 | 220 |
| Consumed in manufacturing | 4,920 | 4,825 | 6,940 |
| Primary | 2,270 | 2,150 | 4,710 |
| ‡Secondary | 2,650 | 2,675 | 2,230 |

# BANK AND INSURANCE STOCKS

BY LEO I. BURRINGTON

## This Week — Insurance Stocks

The 1959 market performance rendered by fire and casualty stocks turned out to be a monotonous affair although toward the end of the year a mild upsurge was witnessed. This late price advance brought insurance stocks generally to the approximate level existing at the outset of 1959. Thus the year 1959 closed with most insurance stock issues priced within a 10% range of their 1958 year-end prices.

One will recall, however, the rapid advance of insurance issues during 1958 when 42 out of 53 leading fire and casualty insurance stocks outpaced the Dow-Jones Industrial Average 1958 gain of 34%. The stocks of the following companies continued to outpace general market performance — Continental Casualty Co., General Reinsurance Corporation, American Re-Insurance Company, Security Insurance Company of New Haven and National Fire Insurance Company of Hartford. Two other issues registered impressive gains during 1959, namely those of Seaboard Surety Company and New Hampshire Insurance Company. The stocks of Agricultural Insurance Company, Peerless Insurance Company and American Fidelity and Casualty Company posted the biggest declines.

The momentum of insurance companies' underwriting recovery presently underway is one which lacks clear definition. The typical past cyclical risks of underwriting experience are being influenced by several factors aside from the historical pattern. Competition has increased considerably with the headway made by concerns operating under independent rates and direct merchandising methods. These companies have benefitted from their realization that the buying habits of the people in the market for insurance have changed considerably. Company success has come about by breaking with insurance merchandising tradition. One apparent certainty is the increasing demand for insurance coverage, thus companies willing and able to adjust to the changing and growing markets will reap the benefits.

**Expense Control By Selected Insurance Underwriters**

| | Expense Ratios* | | | | |
|---|---|---|---|---|---|
| | 9 Mos. 1959 | 1958 | 1957 | 1956 | 1955 |
| Aetna Casualty & Surety Co. | 34.4% | 35.6% | 37.0% | 37.6% | 38.2% |
| Western Casualty & Surety Co. | 35.3 | 35.8 | 36.8 | 37.2 | 37.3 |
| Maryland Casualty Company | 36.9 | 38.1 | 37.9 | 37.9 | 37.4 |
| Mass. Bonding & Insurance Co. | 37.5 | 37.6 | 38.7 | 38.6 | 38.0 |
| Fireman's Fund Insurance Co. | 37.9 | 39.4 | 40.3 | 40.1 | 40.7 |
| New Hampshire Insurance Co. | 38.2 | 39.9 | 40.9 | 41.5 | 41.0 |
| Great American Insurance Co. | 38.7 | 40.9 | 40.4 | 40.7 | 40.9 |
| Continental Insurance Co. | ‡38.8 | 39.3 | 39.7 | --- | --- |
| The Home Insurance Company | 40.2 | 41.7 | 42.4 | 41.9 | 41.0 |
| Providence Washington Ins. Co. | 41.6 | 42.7 | 45.1 | 45.5 | 44.3 |

*Expenses incurred to premiums written. ‡Full year 1959.

Faced with this period of revolution in the insurance field, the direct selling and packaged lines approach is winning sizable customer appeal. Since abrupt changes to completely different merchandising methods may be as harmful as no change at all, soundly operated companies are expected to test further the seemingly successful methods and programs for offering all lines of insurance, including life insurance. Orderly change, nonetheless, appears inevitable.

### Expense Reduction Reflects Internal Control

The numerous independent rate filings for competitive purposes and the economy drive followed by some companies to reduce commissions to agents can lead to better control of underwriting experience. Such steps will allow higher loss ratios and enable underwriters to offer more competitive rates for attracting increased premium volume. The advantage of bigness probably will become more readily recognized. The increasing mobility of people and their desire for convenience, the fuller realization of the national as well as international scope of insurance markets, and the fuller use of automation equipment all point to the likelihood that the period ahead will witness many mergers among insurance companies. The threat of Federal regulatory intervention is ever present to effect more liberal attitudes by state officials toward timely acceptance of competitive rate filings. Electronic processing over agency billing makes sense from the view point of profits and in due course will undoubtedly make more sense to independent agents presently faced with the forthcoming decisions of becoming "captive" agents of a leading company or retaining their independent status where this method better serves the market. Forward-looking agents with constructive attitudes toward serving their markets, rather than participating in rivalry, are well aware that increased volume, without sacrificing quality selection of risks, leads to increased commissions even though at lower unit rates. In reference to expense control, there is no limit to the amount of total commissions paid as long as production keeps pace. Of course, the control of commissions, the major expense of companies, is full of complexities awaiting solution.

The table presented gives the expense control experience of selected companies where underwriting loss ratios as well as expense ratios showed reductions for the first nine months of 1959 from the 1958 nine month period. The underwriters listed are not necessarily the ones with the best expense control records since several companies do not reveal information on their 1959 performance until annual reports are issued.

For the period ahead two underwriting lines in particular still are troubled with underwriting loss experience, auto body injury liability and workmen's compensation. Overall, the outlook for 1960 continues to be one for a good premium volume increase with modest underwriting improvement. Better results are expected to continue the improving 1959 trend in extended coverage, auto physical damage, fire, ocean marine, inland marine, health and accident, surety and miscellaneous casualty lines.

For the stockholder future gains in the market value of their insurance stocks will be aided by increased investment income and improved dividend declarations. Managements who are best able to control their internal expenses through getting their house in high order for effectively reaching their markets indicate one important factor for continued investment attraction of their common shares.



## Phila. Secs. Ass'n to Hear

PHILADELPHIA, Pa. — Louis Stein, President of Food Fair Stores, Incorporated, will be guest speaker at a luncheon meeting of the Philadelphia Securities Association to be held Wednesday, Feb. 3, 1960, at the Warwick Hotel.

Henry McK. Ingersoll of Smith, Barney & Co. is in charge of arrangements.

## DIVIDEND NOTICES

**ALUMINIUM LIMITED**
**DIVIDEND NOTICE**

On January 20, 1960, a quarterly dividend of 15¢ per share in U.S. currency was declared on the no par value shares of this company, payable March 5, 1960, to shareholders of record at the close of business February 5, 1960.

ALCAN

*JAMES A. DULLEA*
*Secretary*
*Montreal*
*Jan. 20, 1960*

**CALIFORNIA-PACIFIC UTILITIES COMPANY**

Quarterly dividends payable March 15 to shareholders of record March 1, have been declared at the following rates per share:

| | |
|---|---|
| 5% Preferred | 25¢ |
| 5% Convertible Preferred | 25¢ |
| 5.40% Convertible Preferred | 27¢ |
| 5½% Convertible Preferred | 27½¢ |
| Common | 22½¢ |

*D. J. Ley*, VICE-PRES. & TREAS.
January 18, 1960

RAYON ACETATE CELLOPHANE

**AMERICAN VISCOSE CORPORATION**

AVISCO

**DIVIDEND NOTICE**

Directors of the American Viscose Corporation, at their regular meeting on January 6, 1960, declared a dividend of fifty cents (50c) per share on the common stock, payable on February 1, 1960, to shareholders of record at close of business on January 18, 1960.

Wm. H. Brown
*Vice President and Treasurer*

RAYON ACETATE CELLOPHANE

## DIVIDEND NOTICES

**EATON MANUFACTURING COMPANY**
**CLEVELAND 10, OHIO**
***DIVIDEND No. 159***

On Jan. 22, 1960, the Board of Directors declared a dividend of forty-five cents (45¢) per share on the common shares of the Company, payable Feb. 25, 1960, to shareholders of record at the close of business Feb. 3, 1960.

R. G. HENGST, *Secretary*

EATON
*Manufacturing plants in 18 cities, located in six states, Canada and Brazil.*

**O'okiep Copper Company Limited**

**Dividend No. 53**

The Board of Directors today declared a dividend of fifteen shillings per share on the Ordinary Shares of the Company payable March 2, 1960.

The Directors authorized the distribution of the said dividend on March 11, 1960 to the holders of record at the close of business on March 4, 1960 of American shares issued under the terms of the Deposit Agreement dated June 24, 1946. The dividend will amount to approximately $2.10 per share, subject, however, to any change which may occur in the rate of exchange for South Africa funds prior to March 2, 1960. Union of South Africa non-resident shareholders tax at the rate of 6.45% will be deducted.

By Order of the Board of Directors,
F. A. SCHECK, *Secretary*.
New York, New York, January 25, 1960.

Sinclair

**COMMON STOCK**
**DIVIDEND No. 117**

On January 20, 1960 a regular quarterly dividend of 75 cents per share was declared on the Corporation's Common Stock, payable March 10, 1960 to stockholders of record at the close of business on February 10, 1960.

**SINCLAIR OIL CORPORATION**
600 Fifth Avenue New York 20, N. Y.

**Southern Railway Company**

THE SOUTHERN SR SERVES THE SOUTH

**DIVIDEND NOTICE**

New York, January 26, 1960.

Dividends aggregating 3¾% on 3,000,000 shares of Preferred Stock of Southern Railway Company of the par value of $20 per share have today been declared out of 1959 earnings, payable as follows:

| Amount | Date of Payment | To Stockholders of Record at the close of Business on: |
|---|---|---|
| 1¼% (25¢) | Mar. 15, 1960 | Feb. 15, 1960 |
| 1¼% (25¢) | June 15, 1960 | May 13, 1960 |
| 1¼% (25¢) | Sept. 15, 1960 | Aug. 15, 1960 |

A dividend of seventy cents (70¢) per share on the Common Stock without par value of Southern Railway Company has today been declared out of the surplus of net profits of the Company for the fiscal year ended December 31, 1959, payable on March 15, 1960, to stockholders of record at the close of business on February 15, 1960.

J. J. MAHER, *Secretary*

## DIVIDEND NOTICES

**The Singer Manufacturing Company**

The Board of Directors has declared a quarterly dividend of sixty-five cents per share payable on March 14, 1960 to stockholders of record at the close of business on February 5, 1960.

D. H. ALEXANDER, *Secretary*
January 21, 1960

UGI **The United Gas Improvement Company**

**DIVIDEND NOTICE**

A quarterly dividend of 60c per share on the Common Stock, par value $13.50 per share, has been declared payable March 31, 1960 to stockholders of record February 29, 1960.

A quarterly dividend of $1.06¼ per share on the 4¼% Preferred Stock has been declared payable April 1, 1960 to stockholders of record February 29, 1960.

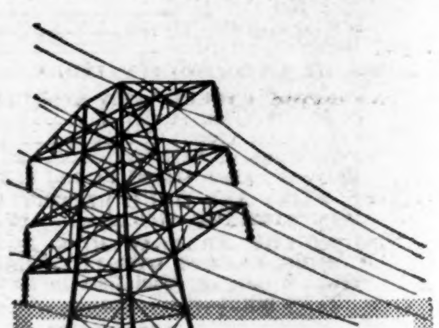
J. H. MACKENZIE, Treasurer
Philadelphia, January 26, 1960.

**YALE & TOWNE**
**288th Quarterly Dividend**


**37½¢ a Share**
Payable:
**April 1, 1960**
Record date:
**Mar. 15, 1960**
Declared:
**Jan. 18, 1960**

**Elmer F. Franz**
*Vice President and Treasurer*

THE **YALE & TOWNE** MFG. CO.
Lock and Hardware Products since 1868
Materials Handling Equipment since 1875
Cash dividends paid every year since 1899



***Southern California Edison Company***

DIVIDENDS

The Board of Directors has authorized the payment of the following quarterly dividends:

CUMULATIVE PREFERRED STOCK:

4.08% SERIES
Dividend No. 40
25½ cents per share;

4.24% SERIES
Dividend No. 17
26½ cents per share;

4.78% SERIES
Dividend No. 9
29⅞ cents per share;

4.88% SERIES
Dividend No. 49
30½ cents per share.

The above dividends are payable February 29, 1960, to stockholders of record February 5. *Checks will be mailed from the Company's office in Los Angeles, February 29.*

P. C. HALE, *Treasurer*
January 21, 1960

Edison

# MUTUAL FUNDS

BY ROBERT E. RICH

## Where the Vision Blurs

Insofar as the stock market is concerned, the Golden Sixties so far just have not been living up to their press notices. Against the background of newspapers plastered with reports of record sales and earnings, the averages have been sliding. It appears that the mutual funds once more are facing one of their periodic tests. The latter part of 1959 saw the funds shuffling their portfolios to counter such an eventuality. Now, recent market action suggests that the current fiscal period may separate the men from the boys.

Early in the formation of this unpalatable January trend, the investment management department of Calvin Bullock put together its own assessment of the 1960 outlook. This was distributed just a few days ago in the firm's monthly newsletter, **Perspective.** Observes **Perspective:** "With business activity and corporate profits rising, one might expect to be somewhat comfortable about the stock market. However, the market has a nasty habit of looking beyond the present and acting contrariwise to current news."

While the pulsetakers at Calvin Bullock deserve credit for the timeliness of their remarks, the greater value in **Perspective's** appraisal is its cold realism. The fashion in predicting lately has been to pronounce that great things are ahead in the first half of the year and in the coming decade. What about the second half? Here the vision blurs and crystal ball specialists lose their glibness.

The editors of **Perspective,** however, come solidly to grips with the less encouraging aspects of the second half. After going along with the common view that inventory accumulation and consumer spending for durable goods will power the next few months, **Perspective adds:** "The stimulus of inventory accumulation should lose its force by the middle of the year. Furthermore, the upward thrust of consumer durable goods purchases is unlikely to last many months since consumer credit is already near a point which historically marks the peak of such buying."

Nor is that likely to be the worst of it. Other bearish factors listed by the Bullock newsletter are tight money, the somewhat less sound state of the dollar and pressures for higher wages. "Toward the second half of the year," notes **Perspective,** "other factors must therefore come forward to sustain growth in the economy. Capital expenditures by business should be one factor, particularly in labor saving areas, but it is questionable as to whether it will be of sufficient magnitude, particularly in view of tight money."

It might seem that the logical course for mutual fund managers in this period would be to take another very hard look at sound, high-yield fixed-income securities. In view of Calvin Bullock's sponsorship of a rather broad range of funds, perhaps, **Perspective** does not make this recommendation. What it does recommend, however, is that investors consider the danger in "popular" stocks with extremely high earnings multiples, begin to reconsider intrinsic value. Says **Perspective:** "It is an environment which still presents opportunity to the investor who ignores the tag of popularity and concentrates on investment fundamentals."

## The Funds Report

**Massachusetts Investors Trust,** issuing its 35th annual report for the year ended Dec. 31, reported total net assets up from $1,432,816,211 to $1,557,737,888 over the 12-month period. Net assets per share gained from $13.35 to $14.15, with the latter figure including a 22c per share capital gains payout. The net assets figure set a new record and was 42% higher than that at the close of 1957.

The number of shareholders increased from 199,449 to 211,495 during the year and shares outstanding grew from 107,295,924 to 111,800,035. The fund stated that its average shareholding came to $7,000, but that holders of $50,000 or more accounted for more than $375,000,000 of assets. Some 22,000 fiduciary and institutional investors owned shares with a combined value of $236,000,000 at the end of 1959.

Purchased during the fourth quarter were American Electric Power, Central & South West Corp., Columbia Broadcasting System, Continental Can, Continental Oil, Gillette, Gimbel Brothers, Unilever N. V. and Union Pacific Railroad. Continental Can and Unilever were new acquisitions.

Sold during the period were American Can, Crown Zellerbach, Deere & Co., International Harvester, Libbey-Owens-Ford Glass, Newport News Shipbuilding & Dry Dock, J. C. Penney, Seaboard Air Line RR. and Sunray Mid-Continent Oil.

* * *

Net assets of **Wellington Fund** during the year 1959, the fund announced in issuing its 31st annual report. At Dec. 31, 1959, net assets came to $1,017,221,524, compared to $857,964,256 at the close of the previous year. Asset value per share gained from $13.88 to $14.15, allowing for the adjustment of 48c per share capital gains distribution.

New investments were American Electric Power, Public Service Electric & Gas, Stauffer Chemical, Upjohn Co. and Siemans & Halske. Increased were Kaiser Aluminum & Chemical, Central & Southwest Corp., Transamerica Corp., United Gas Corp., and Security First National Bank of Los Angeles.

Eliminated were Standard Oil of Indiana, Container Corp. of America, Burlington Industries, Hooker Chemical and Dresser Industries. Reduced were Republic Steel, U. S. Steel, Revere Copper & Brass, Jones & Laughlin and General Motors.

* * *

During the year ended Dec. 31, 1959, **Century Shares Trust** a mutual fund investing exclusively in insurance and bank common stocks, increased its total net assets from $61,740,479, equal to $9.37 per share, to $62,489,243, equal to $9.67 per share. The latter per share figure includes 16c per share paid in a capital gain distribution. According to the annual report, more than 30% of the fund's shares at year-end were held by fiduciaries, philanthropic organizations and other institutions, including college and university endowment funds.

At the close of the year, Century Shares Trust had 38% of its portfolio in life insurance companies 34% in fire and casualty companies, 13% in casualty companies, 10% in banking institutions and 3% in insurance holding companies.

* * *

**The Townsend Corporation of America** has announced plans to register with the Securities and Exchange Commission as an investment company. The firm now operates an airline, two radio broadcasting companies and an industrial precision steel engraving company. By registering as an investment company, Morris M. Townsend, President, said, the organization will be able to undertake several new acquisitions, among them two Florida real estate companies.



### DIVIDEND NOTICES





### DIVIDEND NOTICES

# WASHINGTON AND YOU

*BEHIND-THE-SCENES INTERPRETATIONS FROM THE NATION'S CAPITAL*

WASHINGTON, D. C. — After a two-day pow-wow, Democratic leaders from all fitty States sat down Saturday night in the Nation's Capital to the biggest harmony feast in years.

Some 2,500 of them from the cities, the mountain regions, and a few from the forks of the creeks, dined on fresh fruit cocktail, broiled filet mignon, parisienne peas, rissole potatoes, a winter green salad with gourmet dressing, with a couple of bottles of burgundy on each tables. They topped this off with a bountiful serving of "victory ice cream cake" with melba sauce and a demitasse.

**Then for nearly two hours they stood and cheered as the parade of Presidential nomination hopefuls tossed Richard M. Nixon, the Republican, into the fiery political furnace.**

The big $100-a-plate Presidential kickoff dinner was unquestionably the last of the harmony feasts, at least for a long time. Before too long these same Democrats will begin scrapping among themselves as they seek to advance their own particular choice.

All Democratic Presidential prospects, except Adlai E. Stevenson of Illinois, were on hand for the big blow-out, which will be the biggest assemblage of its kind between now and the Los Angeles Convention opening on July 11.

### Boggs to Be Chairman

As the Democratic bigwigs returned to their homes the No. 1 question that nearly everybody was asking—who is going to get the nomination — remained the No. 1 puzzle. The truth is one could hear just about anything one wanted to hear.

There was one significant development that emerged from the round of informal huddles and the pre-dinner and post-dinner festivities. A Southerner and a Catholic, Representative Thomas Hale Boggs of New Orleans and the Second Louisiana District, appeared to have the permanent Chairmanship of the Democratic National Convention sewed up.

**Congressman Boggs is an able man, and a member of the important House Ways and Means Committee. The convention Chairman is in a powerful position at a national political convention. Among other things he recognizes the speakers from the floor and in what order. Boggs all-out backers include Mayor Robert Wagner of New York and former President Truman.**

A significant thing about being Chairman of a national convention could very well mean that the chairman could move into the powerful position of Speaker of the House of Representatives after Speaker Sam Rayburn decides to hand over the gavel to a younger man. Mr. Rayburn, who is supporting Majority Leader Lyndon B. Johnson of Texas for the Presidential nomination, announced he would not seek the convention Chairmanship again.

There is a possibility as of now that Mr. Boggs will not only be Chairman, but former Governor Stevenson will wind up as the keynoter of the convention rather than as a candidate.

### Not in the Running

Emerging from the dinner, after the orchestra had played "Happy Days Are Here Again," were some other pertinent things. Governor Robert B. Meyner, by virtue of his speech, pretty well eliminated himself from the nomination contention, if he ever was in contention.

Governor G. Mennen (Soapy) Williams of Michigan said informally in the lobby of the Sheraton Park Hotel hours before the dinner that he had no allusions of being tapped either for the Presidential or Vice-Presidential nomination. His speech did not change his political stock. Governor Williams apparently became a "last runner" in the list of hopefuls when Michigan's bankrupt state government could not pay its debts.

### Best Speech Makers

Ironically, the presidential hopeful that made the speech that the crowd liked best of all—each candidate was cheered and applauded—was Minnesota's Senator Hubert H. Humphrey, perhaps the top speech-maker of the Senate.

**The onetime mayor of Minneapolis wove into his address humor, anti-Republicanism, a little statesmanship, and a serving of demagoguery. Senator Humphrey, backed by the liberal Americans for Democratic Action (ADA), appears to be no threat for the No. 1 nomination, but his speech did not hurt him for the Vice-Presidential nomination, should the delegates look over the field for a real liberal and an orator.**

However, the Presidential hopeful that made perhaps the most solid political speech of the evening was Senator Stuart Symington of Missouri, followed close behind by Senator John F. Kennedy of Massachusetts, who is generally regarded as the front runner in the race.

### Lyndon Johnson Running

Senator Lyndon Johnson's speech was just a notch above those of Governors Meyner and Williams and Governor Edmund G. Brown of California. Yet one could hear all kinds of informal reports during the meetings of the Democrats that Senator Johnson has more than 400 delegate votes he can count on as of now. It may be true on paper, but it cannot be confirmed at this time.

Although the Senate Majority Leader is running unannounced, there is no doubt he is running. In the first place, he was introduced by Congressman Chester Bowles of Connecticut as that "great leader from the Southwest" — the Southwest, not the South.

**A few moments later the distinguished gentleman from Texas was really running. He startled Southern Congressmen present by blasting away at the Republicans with both fists for not getting enacted into law a "good civil rights bill." Mr. Johnson does not want to be known as a candidate of the South, but a national candidate.**

Ex-President Harry Truman warned fellow Democrats that they might throw away their bright chances of putting a Democrat in the White House if they fail to unite behind the man that is nominated at Los Angeles. Mr. Truman then described the Eisenhower administration "as the worst government in this country since General Grant."

The parade of speech-makers, for the most part, lashed out critically at Vice-President Nixon. They described him in all sorts of manner such as a "juvenile deliquent," a "city slicker" and the "able, agile gentleman from Whittier, California—Sir Richard the Nimble."

### 1948 Recalled

One of the presidential hopefuls noticed a similarity between 1948, when Harry Truman "upset" Thomas E. Dewey, and 1960. He said the pulse-feelers and trend watchers say the Democrats don't have a chance, and that the poll takers are committing the Democrats to the undertakers, and certain newspapers already have the funeral notice set up in big type.

**The facts are, however, that the Republicans even before the Democrats held their big pep rally in Washington, realize they have a tremendous fight on their hands to hold the White House another four years. They have held the executive branch of government eight years.**

At the same time the Democrats have one-sided control of the Senate and House and there is no chance at all they will relinquish control of Congress after the next election in November. In 1958 the Democrats for the first time since 1789 did not lose a single Senate seat, and at the same time captured 15 new seats.

### Kennedy's Battle Cry

Senator Kennedy quoted from a recent statement by Mr. Nixon as asserting that he wants to carry on the Eisenhower policies if he should become the next president. The personable New Englander said the country cannot afford it. He added:

"Perhaps we could afford a Coolidge following Harding. And perhaps we could afford a Pierce following Fillmore. But after Buchanan this Nation needed a Lincoln—after Taft we needed a Wilson—after Hoover we needed Franklin Roosevelt. After eight years of Eisenhower, this Nation needs a strong, creative Democrat in the White House."

That is going to be a Democratic slogan in the forthcoming campaign—"We need a change after eight long years."

*[This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.]*


**"That you, Bubbledome?—I understand there was a bit of spirited trading down at the Stock Exchange today?"**

## Form Sheffield Securities

Sheffield Securities, Inc. has been formed with offices at 122 East 42nd Street, New York City, to engage in a securities business. Officers are Jerry Gale, President; Irving Goldstein, Secretary-Treasurer; and Peter A. Tummillo, Assistant Secretary. Mr. Gale and Mr. Tummillo were formerly with

# COMING EVENTS

*IN INVESTMENT FIELD*

**Feb. 1-2, 1960 (Dallas, Texas)**
Association of Stock Exchange Firms meeting of Board of Governors at Sheraton Dallas Hotel.

**Feb. 3, 1960 (Detroit, Mich.)**
Bond Club of Detroit annual winter party at Sheraton Cadillac Hotel.

**Feb. 11, 1960 (Chicago, Ill.)**
Bond Club of Chicago annual meeting and dinner at the University Club.

**Feb. 12, 1960 (Boston, Mass.)**
Boston Security Traders Association Winter Dinner at the Sheraton Plaza.

**Feb. 19, 1960 (Houston, Tex.)**
Stock and Bond Club of Houston annual outing at the Brae Burn Country Club.

**Feb. 19, 1960 (Philadelphia, Pa.)**
Investment Traders Association of Philadelphia 36th annual Mid-Winter dinner at the Bellevue-Stratford.

**March 6-9, 1960 (Toronto, Can.)**
Prospectors and Developers Association 28th annual meeting and convention at the Royal York Hotel.

**Mar. 25-26, 1960 (Chicago, Ill.)**
Chicago Chapter American Statistics Association & Chicago Association of Commerce & Industry 7th annual Mid-West Conference at Congress Hotel.

**April 10-11-12, 1960 (Dallas, Tex.)**
Texas Group of Investment Bankers Association of America 25th annual meeting at the Sheraton Dallas.

**April 8, 1960 (New York City)**
New York Security Dealers Association 34th annual dinner in the Grand Ballroom of the Hotel Biltmore.

**May 9-10, 1960 (Atlanta, Ga.)**
Association of Stock Exchange Firms meeting of Board of Governors at Hotel Atlanta Biltmore.

**June, 1960 (Detroit & Michigan)**
Security Traders Association of Detroit and Michigan Summer outing at Western Golf & Country Club.

**June 16, 1960 (Minneapolis, Minn.)**
Twin City Bond Club 39th annual picnic and outing at White Bear Yacht Club (preceded by a cocktail party June 15th at the Nicollet Hotel.

**Sept. 11-14, 1960 (Sun Valley, Idaho)**
National Security Traders Association Annual Convention.

**Sept. 12-13, 1960 (New York City)**
Association of Stock Exchange Firms meeting of Board of Governors at Fisher's Island Club, Fisher's Island, N. Y.

**Nov. 27-Dec. 2, 1960 (Hollywood Beach, Fla.)**
Investment Bankers Association Annual Convention at Hollywood Beach Hotel.